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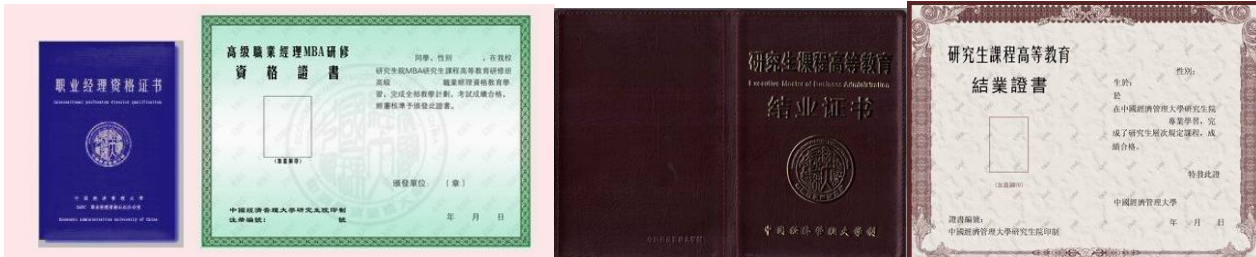
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CHAPTER 1: STRATEGIES

MINTZBERG, "FIVE PS FOR STRATEGY"

Summary of Reading

Strategy has been defined in one way, but used implicitly in different ways. Most people define strategy as a *plan*: a consciously intended course of action. Plans are made in advance of the actions to which they apply, and they are developed consciously and purposefully. Strategy can also be a *ploy*: a manoeuvre intended to outwit an opponent or competitor. But defining strategy as a plan is not sufficient; we need a definition that encompasses the resulting behaviour. Strategy may be a *pattern*; a *stream of action*. By this definition, strategy is consistency in behaviour, whether or not intended. Even though few people would define strategy this way, many seem at one time or another use it in this way. The fourth definition is that strategy is a *position*, i.e., a means of locating an organization in what organization theorists like to call an "environment." This definition is compatible with all the others; a position may be pre-selected and sought through a plan, or it may be reached or found through a pattern of behaviour. Even though most positional definitions are based on the idea of competition, this view may be based on the achievement of any viable position, whether or not directly competitive. Strategy as a position has recently been extended to Collective strategy, i.e., cooperation between organizations. Finally, strategy is a *perspective*, its content consisting not just of a chosen position, but also of an ingrained way of perceiving the world. In this view, strategy is to the organization what personality is to the individual. It suggests that strategy is a concept, that all strategies are abstractions, which exist only in the minds of interested parties. What is of key importance here is that the perspective is shared.

Plans and patterns may be independent: plans may go *unrealized*; patterns may appear without preconception. Where previous intentions are *realized*, we have deliberate strategies. Where patterns developed in the absence of intentions, we have emergent strategies. Purely deliberate or purely emergent strategies are probably rare. Most strategies probably sit on a continuum between the two (from most deliberate to most emergent):

Planned: centrally-formulated intentions are precisely stated, implemented using formal controls, and the environment is benign or controllable;

Entrepreneurial: intentions are the personal and unarticulated vision of a single leader, who personally controls the organization, which is in a protected environmental niche;

Ideological: intentions are the collective vision of the organization's members, controlled through shared norms; the organization is active vis-à-vis the environment;

Umbrella: organization's members must act within boundaries defined by leadership, and strategies are partly deliberate and partly emergent, or "deliberately emergent";

Process: leadership controls process of strategy (e.g., recruitment, structure), leaves strategy content to others, and strategies are partly deliberate, partly emergent, or deliberately emergent;

Disconnected: patterns in their own actions are developed by loosely coupled members or subunits, whether or not central intentions exist;

Consensus: members converge, using mutual adjustment, on patterns that pervade the organization even though central or common intentions don't exist;

Imposed: the external environment dictates patterns in actions, either through direct imposition or by bounding choice.

Strategy as position and perspective can be combined with strategy as plan and pattern. Perspective may be a plan, or it may give rise to plans. Patterns may be recognized and give rise to formal plans, perhaps within an overall perspective. Perspectives probably arise from longstanding patterns. Change in perspective is difficult, but change within a perspective is relatively easy. People often label

important things “strategy” and the details “tactics”. But it is often wrong to do so, because details are important. It may be better to talk about shades of “strategic.” No single definition takes precedence over the others. They compete, but they also complement. Each adds important elements to our understanding of strategy. *Plan* deals with how leaders set direction and also deals with how intentions form in the human brain. *Ploy* takes us into the realm of direct competition; the use of threats and feints to gain advantage. For strategy as *pattern* the focus is on action, but also on the achievement of consistency in that action; this encourages us to consider the notion that strategies can emerge as well as be deliberate. *Position* encourages us to look at organizations in their competitive environments, enabling us to think of organizations in ecological terms (i.e., organisms seeking protected niches). Strategy is not just a notion of how to deal with an enemy or a set of competitors or a market. It draws us into some fundamental issues about organizations as instruments for collective perception and action. The use of various definitions enriches our ability to understand and manage the processes by which strategies form.

Discussion Questions

1. Is it truly possible for a firm to have a strategy in the absence of intention?

This question is intended to stimulate discussion. It does not have a clearly right or clearly wrong answer. For some firms, it would not be likely that strategies would exist in the absence of intention. The best examples would probably be utilities. To a great extent, the absence of intention would be unlikely for most machine organizations and divisionalized firms. These kinds of organizations are large, and standardization is an integral part of their functioning. Also, they typically face stable environments. These factors make planning (i.e., the formation of intentions prior to action) more feasible, and sometimes even necessary. Other types of organizations, notably innovative ones, also known as adhocracies, often plunge right into action, without the prior development of intentions. Any kind of firm that faces an uncertain and dynamic environment is a good candidate for strategy forming, out of a pattern of action, without preconceived intentions. In larger, complex organizations, there are often subunits that act without any explicit set of intentions from upper management. Patterns emerge from their activities; these subunit strategies may later be adopted by the parent organization. Hence, even in large organizations, it is possible for strategies to form in the absence of intention.

2. *Are plans and patterns independent, at least in theory? What about in practice?*

In theory, plans and patterns may be independent. For example, a new organization developing a plan may not have any previous pattern on which to draw. The plan is indeed being done from scratch. This would also be true for ad hoc plans drawn up by organizational committees. Patterns certainly may develop without any prior intention-developing, i.e., planning. Many embryonic companies would start working without fully planning their actions. But in many practical circumstances, plans and patterns would be linked. Many organizations that decide to do strategic planning bring a lot of historical baggage with them; in other words, they have formed patterns, which influence the way they approach the planning task. One could argue that part of the internal analysis, which is usually done in strategic planning, is a form of identifying patterns, some of which have worked, some of which have not. And it is certainly possible, though not as common as is thought, that plans ultimately shape patterns of action.

3. *What is the difference between umbrella strategy and process strategy?*

These two types of strategies are similar in that they both are “deliberately emergent”, i.e., the details of strategies are allowed to emerge within particular boundaries. They differ in the way in which these boundaries are set. For umbrella strategies, the leadership articulates the boundaries, and these boundaries are widely publicized and known within the organization. One of the best examples is 3M Corporation's requirement that 25% of sales must come from products developed within the past five years. For process strategies, the boundaries may not be widely circulated by the leadership. Instead, organizational processes (recruitment, promotion, structure) are manipulated in such a way that strategic activity stays within boundaries.

4. *What is the difference between ideological strategy and strategy as perspective?*

They are very similar. Strategy as perspective could be the worldview of an individual, but it is more likely to refer to an *ingrained way of viewing the world* for a collective of people. Ideological strategy is the *active seeking of* that collective worldview. It tries to achieve a collective vision by means of strongly shared norms, which Mintzberg calls *ideology*. In other words, the pursuit of an ideological strategy, using shared norms, is designed to create a strategic perspective among the members of large organizations. But a strategic perspective may arise out of experiences that are not so dependent on ideology.

5. *Mintzberg says that the distinction between strategy and tactics is dangerous. What is your opinion on this?*

This question is designed to stimulate discussion. Some students may disagree, saying that strategy is definitely more important than tactics. They may say that the big picture is what top management should stress, and others should work out that details. Excessive attention to details is what causes top managers to fritter away their time while the whole organization drifts. Other students may agree with Mintzberg. They may argue that top managers who neglect details do not have any raw experiences upon which to draw from when they are trying to come up with strategic ideas. In other words, they have nothing upon which to build a perspective. They don't even have a good knowledge base upon which to plan. They simply don't have an intimate knowledge of the business.

6. *The author says that it pays to manage the details and let the strategies emerge. What is your opinion?*

This question is designed to stimulate discussion. Many students will disagree with this statement. They will argue that strategy is too important to just let it emerge. These will be the students who strongly believe in planning. They will want to see a more active, formulative approach undertaken by top management. Other students will agree with the author. They will argue that in many (perhaps most)

industries, it is simply not possible for top management to know what will need to be done. They will also argue that innovation is becoming increasingly important. Both of these factors make centralized planning less attractive and less effective. Adaptation and innovation are facilitated through the use of umbrella, process, and consensus strategies, which are the forms of strategy where strategy content details are allowed to emerge.

7. The author quotes Rumelt as saying that strategy means seeking an advantageous position, whether or not directly competitive. What do you think of this?

This question is designed to stimulate discussion. Most students think of head-to-head action when they hear the word competition. The discussion in this part of the article implies that strategy may involve less of that and much more of an *avoidance* of competition. A great deal of strategy theory talks about the creation of strong positions that deter competition, e.g., Miles's and Snow's *Defender* strategy, or Porter's *Cost Leadership* strategy. Another area of heavy discussion in the literature is the seeking out of protected niches, e.g., Miles's and Snow's *Prospector* strategy, or Porter's *Focus* strategy. The question is aimed at getting students to realize that even though competitive forces are constantly being trained, the organization strategists often try to position the organization to dodge, and not confront, these threats.

8. If strategy as perspective must be based on shared perspective, in what kinds of organizations might it be useful?

Shared perspective requires, almost by definition, that there be many people in the organization, so that there are people to do the sharing. This implies that strategy, as perspective, is likelier in medium and large organizations. There are major well-known examples: *Hewlett Packard*, *IBM*, *Sony*, *Apple Computer*. These organizations spend a lot of energy and resources getting their people indoctrinated in the proper norms. This is not to say that strategy, as perspective, can't have a role in smaller organizations. Perspective doesn't come only from indoctrination. Shared experiences can also be the root of shared perspective. One kind of strategy that encourages shared experience is consensus strategy, where strategic content emerges over time through mutual adjustment. The small organizations that are likely to use consensus strategy could therefore develop a shared perspective. Of course, the experiences of an individual will shape his or her individual worldview. In simple structures, or entrepreneurial organizations, strategy is the vision of the leader. This vision will certainly be influenced by his or her worldview. So, strategy as perspective is a concept also applicable to the smallest of organizations.

9. In what ways are the five Ps of strategy related? Does the author's answer to this make sense? Are there other ways that they fit together?

The second and third sub-questions are designed to stimulate discussion. Mintzberg argues that the conventional hierarchy of the strategy definitions is that perspective gives rise to plans, which position the organization and allow them to create patterns in their actions. Another scenario has the pattern or position leading to plans, i.e., the formalization of emergent strategy all happens within a given perspective. A third combination has the pattern or position producing a particular perspective. The last possibility mentioned by the author is perspective constraining changes in position, i.e., the organization repositions itself from Point A to Point B, which are both within its worldview, when it *should* move from Point A to Point X, the latter being *outside* the organization's worldview. (The author gives the example of the *Egg McMuffin*; position changed, but it was still well within *McDonald's* fast-food worldview.)

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PORTER, "WHAT IS STRATEGY?"

Summary of Reading

This reading ties to the following statement in its discussion of strategy by the foremost thinker in the "positioning school": "Strategy is the creation of a unique and valuable position, involving a different [to competitors] set of activities...[it is about] creating fit among a company's activities" (pp.1-19, 1-22). Porter adds a measure of sophistication to the well-established positioning school by emphasizing a systems or *configuration* view of positioning. Such a view focuses on the (mutually-reinforcing) interdependencies between activities necessary to support a particular position over the long-term. Thus, organizational structure, systems, and processes need to be strategy-specific. Porter makes three key points to support this elaboration of the positioning view of strategy.

First, strategy should be distinguished from “operational effectiveness.” Strategy involves activities that deliver a unique value proposition over the long term, thereby establishing differences that a firm can preserve vis á vis its rivals. While considerable gains flow from operational effectiveness (which denotes doing individually well in the many activities by which a firm transforms its inputs), good strategy effectively translates these through a superior *combination* of sustainable and superior profitability by linking them to the delivery of a superior mix of value for the customer.

The second point follows from this: strategy is about being different, and this is achieved through deliberately choosing a distinctive and mutually reinforcing *set* of activities tailored to a position. That is, the appropriate choice of an activity set for the firm will be conditioned by optimizing across three basic sources of strategic positioning: variety- based (i.e. producing a subset of the industry’s products or services); needs-based (i.e. serving most or all of the needs of a particular group of customers); and accessibility-based (i.e. reaching customers in a particular way).

Thirdly, strategy requires trade-offs in order to achieve fit: not pursuing some activities which, in isolation, could be viewed as a value-creating, but are incompatible with the broader set of activities for reasons of contradiction (internally or in the minds of customers) or due to limits on coordination and control. For a superior strategy, choices of activities will be exceptions to, rather than normal practices within, an industry; therefore, a firm will need to be making exceptional choices across many activities (see the *Southwest* example discussed by Porter). Three types of (non mutually-exclusive) fit identified by Porter will already be evident from the previous paragraphs, in ascending order of their power to contribute to sustainability. These are: simple consistency between each activity and the overall strategy; activities that are mutually reinforcing; and optimization. The reading draws on an extended discussion of *Southwest Airlines* in advancing its key points.

Discussion Questions

1. *Does the reading offer a coherent account of competitive advantage?*

With its clear focus on creating value in hard-to-imitate ways, the reading clearly addresses competitive advantage. Furthermore, the central notion of fit among activities, and of the resulting activity system and position sets out a coherent range of objectives and actions that managers can pursue in seeking to build competitive advantage.

2. *What does the author have to say about the limitability of strategy? How persuasive do you find his argument?*

Porter emphasizes that imitation is made difficult, or even impossible, by the need to imitate simultaneously across many dimensions (so that you have an effective combination). The complexity of cause-effect relations, trade-offs, and complementarities makes any activity system (and especially a superior one) very difficult to copy. However, there is a problem with this argument; how to explain why innovation of an activity system can be profitable, whereas imitation is not? Clearly, when trying to account for the possibilities of imitation we need to address barriers other than complexity (of the activity system), such as resource requirement or inter-firm relationships.

3. *Does the reading offer useful insights into how to deal with change?*

The answer to this question can usefully be related to discussion of the configuration school of strategy-making in the subsequent reading. When activities fit tightly together in a system, they can be expected to have a high inertial component, because change in any activity threatens to introduce inconsistency into the system. Only small changes are likely to be easily accommodated. Major change in strategy will require changing many of the activities at once. Porter, however, has little to say on how to do this while staying in business.

MINTZBERG & LAMPEL, "REFLECTING ON THE STRATEGY PROCESS"

Summary of Reading

The authors address how the process of making strategy should be thought about, and how it has been thought about and taught by, scholars of strategy. They identify 10 strategy "schools" and group these into two categories. The design, planning, and positioning schools are all *prescriptive* as each emphasizes how strategies should be formulated and seek to specify an ideal way of making strategy. The *design school* sees SWOT analysis as the heart of strategy-making: strategy as top management's conception of the proper fit between the organization's strengths and weaknesses and its environment's threats and opportunities. The *planning school* developed a more formal version of the design school, with analysis carried out by professional planners generating a strategy to be adopted by top

management. The *positioning school* drew on industrial-organization economics and military strategy to emphasize strategy-making as the specification of (five) forces shaping every industry structure and top management's choosing one of a few generic positions as a result of this analysis.

The *descriptive* category contains the six schools that deal with differing views of how strategic thinking actually gets done. These schools are concerned less with prescribing ideal strategic behaviour than with describing how strategies do in fact get made. The *entrepreneurial school* emphasizes the characteristics of the creative leader and describes strategy-making as a process flowing from this visionary individual; the *cognitive school* also focuses on the individual but emphasizes the leader's mental processes and seeks to explain how the "mental maps", that constitute strategy, get formed. While both of these schools imply strategy as a process that emerges from individual visioning and coping efforts, the *learning school* describes strategy-making as an *organizationally-based* (rather than individual-based) process emerging from the piecemeal efforts of many organization players such that the organization "muddles through." Next comes the *power school*, which emphasizes organizational politics, and describes strategy-making as a process of negotiation, grounded on such phenomena as empire building and coalitions. "Hold power up to the mirror and its reverse image is culture" (p1-27). The *cultural school* focuses on common interests and integration (as opposed to the individual interests and fragmentation of the power school) and describes strategy-making as a collective process grounded on such phenomena as organizational myths and ideology and the uniqueness of any given firm's processes. Whereas the cultural school can be described as an inside-out approach to strategy-making, the *environmental school* contends that it is the environment which does the choosing in strategy, for those organizations unsuited to environment are selected out of existence.

Finally, the *configuration school* can be said to constitute its own category, seeking to integrate the insights of all of the other schools. It describes strategy-making in terms of distinct "ideal types" i.e., distinct clusters of circumstances (e.g. unchanging environment), structure (e.g. hierarchical), and style of behaviour (e.g. formalized) make one form of strategy-making more appropriate than another. In the notional cluster just described, a prescriptive process would be likely. These configurations will remain stable for considerable periods of time. Gradually, however, inconsistency builds in the configuration (e.g. new and dynamic competitors appear); the need for change may be best handled by changing many elements at once, i.e., "leaping" to a new configuration. As the authors conclude in their book-length version (with Bruce Ahlstrand) of this reading, "Strategy formation is judgmental designing, intuitive visioning, and emergent learning; it is about transformation as well as perpetuation; it must involve individual cognition and social interaction, co-operation as well as conflict; it has to include analyzing before and programming after, as well as negotiating during, and all of this must be in response to what can be a demanding environment." (Strategy safari: A guided tour through the wilds of strategic management, 1998, pp. 372 & 373). Extracts from this book are included in chapters 6 and 7; the "configuration school" is further elaborated in the Mintzberg reading chapter 8, and in particular detail in the Mintzberg readings that open each of chapters 13-18.

Discussion Questions

1. Identify some broad characteristics for a good strategy system in any company.

We can think of this in terms of two broad criteria: those making the strategy get good information *personally*, making a leap with information in some conceptual sense. Front-liner workers are often better at the first, senior manager better at the second, and middle managers tend to tie the two together. Good strategy-making will likely require a tremendous amount of communication and interaction around ideas and possibilities between all of these players. Sometimes strategy is genius (entrepreneurial school), but frequently it's mulling things around over time (learning school) until

finally the market hits you over the head (environmental school) and you start to realize what you have to do (prescriptive category).

2. Suppose a firm has settled on a good strategy. How long can one expect it to last?

Nothing gets done, or things get done badly, if strategy is constantly being put into question. Most of the time, organizations simply pursue strategies that are well established and working. Occasionally, they have to put them into question, and that's the time to get into an iterative process formulating and implementing and back to formulating to arrive at something else that's going to work.

3. How simple should a strategy be?

Sometimes very, very simple indeed, or at least the articulation of the essence is simple. The full strategy is usually very elaborate and complex. But some sense of how the firm is positioned in the marketplace can be rather simple. For example, an airline such as *Lufthansa* has a fairly simple market position in terms of the categories of customer it serves and where and how it provides service to them.

4. How unique should a strategy be?

The prescriptive-category schools, and especially the positioning school, emphasize the unique content (e.g. in terms of target market) of a strategy. However, consistent with what the descriptive-category schools argue, we can say that it's not the uniqueness of the strategy so much as the execution that really sets a firm apart, that competitors are likely to find it much more difficult to imitate *how* a superior firm works that *what* that firm does. Thus the great firm is more likely to be one that does ordinary things in brilliant ways.

5. Why do you think there have so many different schools of strategy-making?

Different schools have dominated at different times. Each school is a reflection of a particular perspective and is often grounded on very different key premises. Each school leverages and is constrained by the attributes of the society and historical context of where and when it originated. So, contextual factors, such as wartime experience with large-scale logistics planning and popularization of the case-study method in business education, had a profound influence on strategic management thinking in the post-World War II years. The prescriptive schools developed in this context are built on premises of hierarchy, command and control, stability, and environmental predictability. They tend to embody the values of North American businesses and society. Given the internationalization and relative dominance of American business in this period, these became very popular schools and have been institutionalized in the processes of many companies.

These approaches have been challenged by the process schools that view strategy-making as less structural and more developmental, less programmable and more emergent, less quantitatively bound and more creatively expansive. Not surprisingly, the context for the development of these schools has, in many cases, been a competitive environment recognized as becoming increasingly turbulent and more diverse. Having said that, it should also be emphasized that, as indicated by the brief discussion of the configuration school and Table 2 (p 1-28), the boundaries between the schools are often not clear-cut but rather overlapping and sometimes vague.

6. Is this identification and discussion of the schools of strategy-making just academic navel-gazing or are managers likely to find it useful?

The discussion provides a language that defines the different approaches to strategy-making, illuminates the differences among them, and suggests when their use is appropriate. It therefore helps managers to structure how they should think about strategic management in their organization. Table 1 conveniently summarizes the dimensions of the schools, and managers could use this as a tool to become more aware of their own approach and the alternatives available to them. It could also be valuable in selecting a consultant to help in strategy-making for the firm. Without it, an organization may unwittingly buy into a particular approach to strategy-making.

CHAPTER 2: STRATEGISTS

MINTZBERG, "THE MANAGER'S JOB"

Summary of Reading

Major thinkers about management work seem to emphasize one aspect of the job to the exclusion of others. Peters emphasizes doing, while Porter stresses thinking. Zaleznik and Bennis say that the essence of management is leadership, but the classical writers Fayol and Urwick stressed controlling as the key part of the job.

Some folklore and fact...

Folklore: The manager is a reflective, systematic planner.

Fact: Study after study has shown that managers work at an unrelenting pace, that their activities are characterized by brevity, variety, and discontinuity, and that they are strongly oriented to action and dislike reflective activities.

Folklore: The effective manager has no regular duties to perform.

Fact: In addition to handling exceptions, managerial work involves performing a number of regular duties, including ritual and ceremony, negotiations, and processing of soft information that links the organization with its environment.

Folklore: The senior manager needs aggregated information, which a formal management information system best provides.

Fact: Managers strongly favour oral media—namely, telephone calls and meetings.

Folklore: Management is, or at least is quickly becoming, a science and a profession.

Fact: The managers' programmes—to schedule time, process information, make decisions, and so on—remain locked deep inside their brains.

The manager's job is characterized by brevity, fragmentation, and oral communication.

A manager is defined as that person in charge of an organization or one of its units. This can be vice presidents, head nurses, hockey coaches and prime ministers. These diverse roles do have something in common if we build the image of the job from the inside out. People come to management jobs with five things: values, experience, competencies, knowledge, and mental models (*the person in the job*). At the core of the management job is its frame, which is strategy, vision, purpose, perspective and positions (*the frame of the job*). Frame gives rise to a first role in the management model, conceiving, which means thinking through the purpose, perspective, and positions of a particular unit to be managed over a period of time. The *agenda of the work* comes with an associated role—scheduling. The frame is manifested as a set of issues. If the frame is loose, there may be many (perhaps too many) issues. If the frame is very tight, there may only be one “magnificent obsession.” The frame and the issues are manifested in a schedule, with its associated priorities. The core of the manager's job is the frame manifested by an agenda. This core may be placed in a context, which is split into three areas (i.e. *the core in context*): inside (the unit being managed), within (the rest of the organization), and outside (the rest of the context that is not part of the organization).

“ . . . Much of managerial work is clearly directed either to the unit itself, for which the manager has official responsibility, or at its various boundary contexts, through which the manager must act without that responsibility.”

Managing on three levels

From the outside in, managers can manage *action* directly, they can manage *people* to take action, or they can manage *information* to influence the people.

Managing by information

“Managers’ own activities focus ... on information as an indirect way to make things happen....*Communicating* refers to the collection and dissemination of information.” Managers scan, monitor, share and disseminate. They are nerve centres. Specialists may know more, but the manager has the broadest knowledge. In a more *controlling* role, managers try to use information to evoke action somewhat more directly. They can do this by developing systems, designing structures, and issuing directives. The manager as a controller is less an actor and more a reviewer. The controlling role is what people have in mind when they refer to the “administrative” aspect of managerial work.

Managing through people

The controlling role that dominated early management thought gave way to a greater emphasis on people. Much of this emphasis was on insiders, often called subordinates. But outsiders take up almost as much of a manager's time. The internal aspect of managing through people is the *leader* role. Managers play this role in three ways. They can lead *individuals*. They can lead *groups*. And they can lead *units*, especially with regard to the creation and maintenance of culture. The external aspect of managing through people is the *linking* role. With the proliferation of joint ventures, strategic alliances, and other networks, this role is performed more and more. Both the leader and linking roles result in managers trying to influence people but also having people trying to influence managers.

Managing action

“...[Managers] also manage actively and instrumentally by their own direct involvement in action.” The attention paid to controlling and leading has obscured this. Leonard Sayles has insisted that managers must be the focal point of action in and by their units. “Their direct involvement must, in his view, take precedence over the pulling force of leadership and the pushing force of controllership.” This is the *doing* role, but managers hardly ever “do” anything. They talk, listen, watch and feel. So doing really means getting closer to the action. “A ‘doer’ is really someone who gets it done.” *Doing inside* involves problems and projects, but sometimes it means doing regular work just to keep informed. *Doing outside* takes place when negotiations and deals are going on.

A well-rounded job at managing

Too much doing can lead to centrifugal explosion—the job flies off out of control. Too much thinking can produce centripetal implosion—the job closes in on itself and loses connection to actions. The two must be balanced. Too much leading leads to lack of content, but too much linking detaches the job from its roots. Only communicating or conceiving means almost total lack of action. And too much controlling is an all-too-familiar trap. The manager must practice a well-rounded job. Its elements may be conceptually separated, but cannot be behaviourally separated. Some of the most interesting aspects of the job fail on the edges between the component parts.

Managers who do “outside,” but not “inside,” will get into trouble. Conceiving without leading and doing is what has got strategic planning into disfavour. Doing without conceiving is equally nonsensical. There are, however, legitimate styles of management that emphasize various roles: conceptual (focus on development of the frame), administrative (focus on controlling), interpersonal (concerned with leading and linking), and action (a style oriented toward tangible doing). There are also styles based on interrelationships among the components of managerial work. A *deductive* approach proceeds from the core out, as the conceived frame is implemented through scheduling and

information. This is a cerebral, deliberate style. An *inductive* approach goes from the outer surface to the inner core and is much more emergent and insightful.

Discussion Questions

1. *The author says that the four concepts of planning, organizing, coordinating, and controlling tell us little about what managers actually do. What do you think of this assertion?*

This question is intended to stimulate discussion. Most students will have a hard time agreeing with Mintzberg on this. Almost all the introductory textbooks on management rely on this familiar four-part classification. But Mintzberg was not interested in perpetuating Fayol's conceptual scheme. He wanted to examine what managers actually do, and to develop a descriptive classification. The resulting framework is what this reading is all about. Looking at it, it is difficult to classify what managers actually do neatly into Fayol's four categories. In that sense, Mintzberg's statement is correct; some students may agree with it.

2. *Perhaps, as the author says, managers aren't reflective, systematic planners. The question then is, should they be? What is your answer to this question?*

This question is designed to stimulate discussion. Some students will argue forcefully that managers should be more systematic, and should plan. Others will counter that the nature of managerial work is such that it is futile to push managers to be objective, systematic planners. There is a germ of truth to each position. Even Mintzberg recognizes that managers must often act rationally and systematically. But it is equally true that many times they cannot, and should not. The key may lie in what Peters and Waterman asserted in *In Search of Excellence*—like the organizations they manage, managers must be simultaneously loose and tight.

3. *In what way, if at all, is it surprising that the manager does have regular duties to perform?*

It is only surprising when juxtaposed with the typical view of managers, whether that view comes from textbooks or from popular ideas about management. The typical view holds that managers should delegate everything, and never do anything themselves. Mintzberg's empirical model proves that there are some things that the manager simply can't delegate. They must lead, they must link to the outside, they must allocate resources, and so on.

4. *The author says that managers don't, and shouldn't, make much use of MIS systems. What is your opinion on this?*

This question is intended to stimulate discussion. Mintzberg clearly believes that managers are better off using oral communication than written communication, especially computer printouts. Some students will agree with this. Others will disagree, saying that managers would do a better job if they systematically used aggregated data from an MIS. Each side of this argument has some merit. Oral media are clearly richer than written media. Research has shown that upper-level managers need large quantities of rich data. Top managers may not benefit from the somewhat lean information provided by an MIS. On the other hand, lower-level managers may be able to use aggregated data very effectively. They often need large quantities of lean information, the provision of which is a strength of management information systems.

5. *Do you agree that a firm's strategic data bank is in the minds of its managers? If so, should it be?*

Many students will disagree with this statement. They will assert that large, complex organizations will have their strategic databases in some codified form, either a strategic plan, a formal planning unit, or something along those lines. This position is valid for a small percentage of firms, mostly large bureaucracies. Since most of them are large firms, this view tends to dominate. Although most students will not think of this, it is also true that firms with a strong culture have their strategic data banks in

their culture. Of course, the argument could be made that culture, being a non-tangible thing, resides in the minds of the organization's members. Others will agree with the assertion in the question. They still argue that since most organizations don't bother to state their plans formally, the information that makes up their strategic concepts is held inside the minds of the top managers. This position is largely correct. Managers in small firms tend not to state their strategic intentions explicitly. Yet these managers often have a clear vision of what they want to accomplish. Similarly, even the managers of large firms often rely less on formal systems, and more on their own interpretations, to define strategies. This is particularly true during periods of crisis.

6. Do you think that management is a profession? If yes, why? If no, can it ever become one?

This question is intended to stimulate discussion. Many students, especially those who are very vested in their programs of study, will argue vehemently that management is a profession, one for which they are studying. They will point to the many skills in finance, marketing, production, and so on, that they are developing in their programs. They may refer to the often-heard term “professional manager.” But, for the most part, it is difficult to characterize managerial work as professional. The term “professional” can usually be properly applied only to work which is complex yet able to be standardized. Managerial work is certainly complex, but it is not standardized. Yes, we do teach financial skills that help in the allocation of resources, but research has shown that political skills are just as important in determining who gets what. The parts of management education that come closest to professional deal with the application of quantitative skills to the solution of structured problems. But those kinds of problems make up only a fraction of the problems faced by managers. Most of the tasks that need to be done—leading, figure-heading, communicating, disturbance handling, negotiating, resource allocating—are not structured tasks. Being a manager is not like being a doctor or a lawyer or a public accountant, all of whom can turn to the recognized references in physiology or constitutional law or financial accounting standards in order to resolve problems.

7. How do the figurehead role and spokesperson role differ?

The figurehead role is non-verbal. Managers simply have to “be there” in order to fulfill that role. They show up at weddings, funerals, lunches, dinners, and other kinds of ceremonies. Even if they are called upon to speak, their utterances are usually pro-forma, and not as important as their mere presence. The spokesperson role requires verbal communication, either oral or written. Top managers make speeches to stakeholder groups, they write letters to relevant publications, they address stockholders, they testify at legislatures, they write the letter to stockholders in the annual report. Lower level managers attend staff meetings, they report to their superiors (orally and in writing), they fill out reports that must be sent to staff people elsewhere in the organization.

8. What are the implications of the way the author describes the entrepreneur?

Mintzberg's description of the entrepreneur has two components, having to do with the projects he/she develops. The first is that the development projects “emerge as a series of small decisions and actions sequenced over time.” The second is that entrepreneurs sponsor many (up to 50 in one instance) projects, at various stages of development, at one time. The implications of this (see also the earlier reading by Quinn), are that effective managers shouldn't be looking for large-scale achievements. Strategies for the organization will develop over time as the product of many small, seemingly unrelated, efforts by its members. The manager is in the unique position of being able to appreciate all these streams of action, of being able to integrate them. Another implication is related to innovation. Research on innovation has highlighted its probabilistic nature, i.e., it takes many attempts to get a few winners. Mintzberg's description of the entrepreneur role corroborates this; effective managers will juggle many projects at once, in the hopes that a small number of them will succeed.

PITCHER, "ARTISTS, CRAFTSMEN, AND TECHNOCRATS"

Summary of Reading

To change corporations you have to change managers. All else is abstraction. Technocrats with ultimate authority will drive out artists and craftsmen. Technocrats like words, charts and graphs, and plans. Here are the words colleagues use to describe them: controlled, conservative, serious, analytical, no-nonsense, intense, determined, cerebral, methodical, and meticulous. Artists are pretty much the opposite of technocrats. Descriptive words for the artist: bold, daring, exciting, volatile, intuitive, entrepreneurial, inspiring, imaginative, unpredictable, and funny. People trust craftsmen. Craftsmen see organizations as enduring institutions that have lives of their own, pasts and futures. Craftsmen see themselves as custodians of these institutions. Craft is rooted in tradition, experience and practice, all of which lead to judgment. Apprenticeship is long, frustrating and sometimes arduous. Craftsmen are patient and exhibit judgement. Descriptive words for the craftsman: wise, amiable, honest, straightforward, responsible, trustworthy, reasonable, open-minded, and realistic.

These three types of people have great difficulty communicating. They have different worldviews, values and goals. They ask different questions and give different answers. Their conflicts centre not on ideas, but on character. Technocrats' cost-cutting programs often cut into what the craftsmen think is the core of the company. Craftsmen see technocrats as too distant and abstract. Technocrats often see profitability as a strategy. Profitability was not and is not a strategy and it can certainly not inspire anyone as an ultimate goal: 'What do you do for a living?' I make profit.' Losing . . . artists, [a] company [loses] vision. Losing . . . craftsmen, it [loses] its humanity."

Technocrats make us feel secure when they use their analytical tools. When asked what a manager looks like, students will respond "calm, rational, well-balanced, measured, analytical, methodological, skilled, trained, serious." This is the liturgy of the technocratic school. The technocrat has become the definition of manager.

The old ways no longer work. Organizations need to learn rapidly and continuously. To do this we need to rely on our visionaries—geniuses, poets, statesmen, leaders, artists. The common thread is "someone who breaks radically with conventional wisdom, someone who sees what others do not, someone who imagines a new order. This is discontinuous learning. We call it imaginative." There is also daily, continuous learning that transforms imagination into the concrete. This is the learning of the skilled craftsman. Codification of existing learning is done by technocrats. But technocratic knowledge alone can be dangerous. "If [technocrats] have no imagination, they will only mimic the competition—strategy as paint-by-numbers. If they have no skill, they will not understand their markets. If they have no wisdom, they will tear at the fabric of the organization.

Leadership consists of knowing how to package these three ways of learning and integrating vision, continuity and control. The first step is to diagnose, but it is made more difficult for three reasons:

1. Artists, craftsmen and technocrats rarely exist as such; they are archetypes. Real people come in complex packages.
2. The task is made more difficult by masquerades. Artists and craftsmen rarely fool us, but brilliant technocrats are able to mimic the gloss of artists or craftsmen. We can be radically misled.
3. Diagnosis is affected by our biases as one of the three types. For example, technocrats might see other, more-brilliant technocrats as artists.

The recent call for charismatic leadership will not take the hard work out of managing a business. "You need artists, craftsmen, and technocrats in the right dose and in the right places. You need someone

with vision, but you also need someone who can develop the people, the structures and the systems to make the dream a reality.”

Discussion Questions

1. *What is your reaction to the three types developed by the author?*

It should be interesting to see how students react to the types. It is clear that the author likes craftsmen very much, artists a bit less, and technocrats not at all. Technocrats suck the lifeblood out of the organization. Artists are good for providing vision and imagination, but otherwise their heads are stuck in the clouds. Craftsmen are the only ones who seem to have the proper appreciation for the past, present and future of the business as an institution. It is certainly possible that some students will disagree with the author. As she points out, technocracy is almost a management religion, and it is likely that students enrolled in a business program will see the technocrat as the ideal.

Perhaps older or more experienced students will see the value of the craftsman, a metaphor which almost directly evokes the potter in Mintzberg's Chapter 5 reading, “Crafting Strategy.” Of course a good craftsman has a mixture of the technocrat (knowledge of a technology) and the artist (imagination). A good potter, for example, certainly would be skilled in the technique of “throwing” (potting), but would have to have some imaginative ideas about what to throw. That is Mintzberg's, and perhaps Pitcher's, point. And that is why the artist, much under-appreciated, needs to be appreciated more. Without the artist's imagination, the craft would not advance very far very fast.

2. *The author says, "Profitability was not and is not a strategy and it can certainly not inspire anyone as an ultimate goal." What is your reaction to this assertion?*

Some students may be stunned by this. Shouldn't a firm be interested in making a profit? Of course it should, but making a profit is not a strategy. It is not "a pattern in a stream of action over time." Profitability is an outcome, a goal, of strategic action. A strategy would be something like pursuing differentiation through quality, or price, or service, as we saw in Chapter 4. As for inspiration, even though many people are “turned on” by the prospect of making lots of money, very few people are actually spiritually uplifted by it. Inspiration comes from doing something great, making a distinctive contribution.

3. *What are the three kinds of learning, and what is your reaction to the author's comments about them?*

The three kinds of learning are: imaginative, daily, and scientific. The first is bold, poetic, and discontinuous. The second is continuous, craft-like, and skilled. The third is study-oriented, diligent, and codifying. It is very clear that the author likes the first two, especially the second, but not the third. She talks about how “our religion” has eliminated the poetic and the craft types of learning. She also talks about how using only the last type of learning will lead to “strategy as paint-by-numbers”. There will no doubt be some students who disagree with this assessment of learning, particularly the last kind. Surely there are contributions to be made by scientific learning. And it is not clear that craft learning has been eliminated, particularly with the resurgence of “continuous improvement” and its basis in experience and trying new things.

4. *What is your assessment of the author's comments about the difficulties of diagnosis?*

It is good for students to hear that they are likely to find combinations of these types rather than pure versions of them. Most students will resonate to that. It should be interesting to hear their reaction to the author's second point—the one about “masquerades.” The author seems to have a visceral aversion to technocrats, and this section in particular seems to indicate that technocrats are so evil that they can fool people into thinking they are one of the other types. The author's final point is a good one that what you see depends on where you sit. One's type is likely to bias one's perception of others. This is always a good thing to keep in mind. Perhaps the author should have taken her own advice when it came to technocrats.

WRAPP, “GOOD MANAGERS DON'T MAKE POLICY DECISIONS”

Summary of Reading

The author's metaphor of the manager is of sitting in a stream: operating problems float by, the manager quickly examines each one, hangs onto the good ones and after collecting a few begins to see ways in which they might relate, be perceived in the power structure, and move the organization toward its objectives. He has identified five skills or talents which seem especially significant in distinguishing effective executives.

Successful executives have a talent for *keeping well informed* about a wide range of operating decisions being made at different levels in the company. Superficially, they seem to fall into the trap of being lost in operating detail and making too many decisions. But they know that keeping well informed is the only way of avoiding the sterility (and excessive abstraction) caused by isolation. Boulding is quoted about how hierarchy is an information filter “with little wastebaskets all along the way.”

Effective executives know how to *focus their time and energy* on relatively few issues. Recognizing that they can bring their special talents to bear on only a limited number of matters, they choose those which will have the greatest long-term effect.

Successful executives *play the power game*. They recognize the firm's power structure and work through corridors of comparative indifference, i.e., that part of the response range to proposals where strong opposition is unlikely. “He seldom changes when a corridor is blocked, preferring to pause until it has opened up.” Effective executives also rely on “trial balloons, floated by others, gauge relation to these, and recognize that strong support in some areas is likely to be accompanied by strong opposition in others.” A sense of timing is crucial: goals and their timetable are hazy, and the power blocs within the firm make decisions along the way, allowing the later executive to plot corridors of comparative indifference.

Successful executives also cultivate an art of imprecision, satisfying their organizations so that they have a sense of direction while avoiding public commitment to specific objectives. This is necessary because greater specificity make it more difficult to shift when needed. Also, it is impossible to state objectives clearly enough so that they can be understood by everyone: “Objectives only get communicated over time by a consistency or pattern in operating decisions.” And it is important to avoid policy straitjackets, as more time may be spent arbitrating disputes over policy than moving the company forward. MBO is unworkable above the lowest levels of management. Detailed objectives are communicated only in small doses.

Effective executives *muddle with a purpose*, recognizing that it is best to try for partial programs and modest progress toward goals, piecing together parts of different proposals. This requires wide-ranging interests and the ability to see how things relate.

Discussion Questions

1. *What is your opinion of the authors' assertion that it is a mistake for top managers to get involved in operating problems?*

Some students may argue the mainstream view; top managers are “big picture” people only, and run too high a risk of getting bogged down in minor details if they try to be otherwise. Others may agree with Wrapp that top managers are like everyone else and need concrete experiences from which to build their business mental models. Finding the right balance between “big picture” thinking and involvement in operating details will facilitate this.

2. *Why should a manager want to transmit his or her know-how “short of giving orders”?*

Since power is a reciprocal relationship (you have only as much power as others are willing to concede to you) it is almost always better to exercise that power with discretion. Moreover, it is sensible to allow others to exercise your power for you as this empowers them, and contributes to organizational effectiveness.

3. *What do you think of the author's contention that well-defined policies are not typical of well-managed companies?*

Wrapp offers some interesting reasons to support this assertion. First, detailed policies often give rise to time-consuming arbitration of disputes. Secondly, detailed statements of policy are often a sign of atrophy. Lastly, the policies of well-managed companies emerge from a pattern of decisions over time.

4. *What do you think of the author's assertion that top management does not require intellectual brilliance or unusual creativity?*

This is consistent with his identification of five *teachable* skills; management is something that any diligent and reasonably intelligent person can learn how to do.

SENGE, "THE LEADER'S NEW WORK: BUILDING LEARNING ORGANIZATIONS"

Summary of Reading

Human beings are designed for learning. But institutions seem more intent on controlling, rather than on encouraging, learning. People perform for others rather than cultivate their natural impulse to learn. Focusing on performing for others leads to mediocrity, since the only way to sustained success is learning. No one person can learn for the entire enterprise. There must now be "integrative thinking and learning at all levels...."

Adaptive learning and generative learning

Using learning to increase adaptivity is only the first stage. The true root of the impulse to learn is to be *generative*, to expand our capability. It is about creating, not just coping. "Generative learning, unlike adaptive learning, requires new ways of looking at the world, whether in understanding customers or in understanding how to better manage a business. U.S. businesses tended to use strict inventory controls, incentives against overproduction, and rigid adherence to production forecasts. The Japanese looked at things differently and worked to eliminate delays, which turned out to be a much higher-leverage approach. They were able to do this because they saw the *system*. Generative learning requires seeing the systems that control events. When we fail to grasp the systemic source of problems, we are left to 'push on' symptoms rather than eliminate underlying causes."

The leader's new work

We tend to see leaders as individualistic, non-systemic heroes. Leadership in learning organizations is subtler and more important. "Leaders are designers, teachers and stewards". New skills are required; building shared vision, surface and challenge prevailing mental models thinking more systematically. "Leaders are responsible for learning."

Creative tension: the integrating principle

"Creative tension comes from seeing clearly where we want to be, "our vision," and telling the truth about where we are, our "current reality." The gap between the two generates a natural tension." We can resolve the creative tension by either raising the current reality to the vision, or lowering the vision to fit the current reality. Creative tension can be a good source of energy for change, and will not occur without a vision, and vision will not come from analysis of current reality. No one will make the necessary sacrifices just to get out from under current reality. They need instead to hold a picture of what *might be*—that is where energy comes from. But there needs to be an accurate picture of current reality, too, or members of the organization will wallow in cynicism, not idealism. Leading through creative tension is different from solving problems. The latter is merely getting out from under some undesirable aspect of current reality. The motivation for problem solving is extrinsic, but for creative tension it is intrinsic, which mirrors the distinction between adaptive and generative learning.

New roles

Building culture and shaping its evolution are the unique, essential functions of leadership. Learning organizations have three critical leadership roles—designer, teacher, and steward.

The *leader as designer* is a neglected leadership role. Being the leader of a poorly designed organization is fruitless. This design function is not "moving boxes and lines." It involves designing the governing ideas of purpose, vision, and core values. These have enduring impact. The second design task is of the policies, strategies, and structures to translate guiding ideas into business decisions. These

tasks are now more distributed throughout the organization. This is particularly true of emergent strategies and "crafting strategy": "The key is not getting the right strategy but fostering strategic thinking." The third design task is the creation of effective learning processes. These are "meta-processes" that ensure that the other processes are continually improved.

The *leader as teacher* means helping people get more insight. It includes helping them get a better picture of their mental models and to think systematically. "Much of the leverage leaders can actually exert lies in helping people achieve more accurate, more insightful, and more *empowering* views of reality." Mental models are mental pictures we carry in our heads about how the world works. "[Mental models] have a significant influence on how we perceive problems and opportunities, identify courses of action, and make choices." Mental models are deeply entrenched partly because they are tacit.

But revealing hidden assumptions is only part of the work with mental models. "Leaders as teachers help people *restructure their views of reality* to see beyond the superficial conditions and events into the underlying causes of problems—and therefore to see new possibilities for shaping the future." Leaders can help people view reality at three levels: systemic structure (generative), patterns of behaviour (responsive), and events (reactive). "The key question becomes *where do leaders predominantly focus their own and their organization's attention*?" We tend to focus on events, especially short-term ones. Patterns-of-behaviour explanations do occur, but are rare. But systemic, structural explanations address the question of what causes the patterns of behaviour, so they go much further. All the levels are "true," but the structural level has the greatest power. Most current leaders focus on events and patterns, which is why most organizations are reactive, at best responsive, but rarely generative. By contrast, reaming organizations focus on systemic structure.

The *leader as steward* is the subtlest of the roles, based almost solely on attitude. Greenleaf captured it best in *Servant Leadership*, saying, "The servant leader is servant first It begins with the natural feeling that one wants to serve, to serve *first*. This conscious choice brings one to aspire to lead. That person is sharply different from one who is leader first, perhaps because of the need to assuage an unusual power drive or to acquire material possessions." Stewardship applies to both the people led and the purpose that underlies the enterprise. Since people in learning organizations can suffer emotionally, economically, and spiritually under inept leadership, stewardship of people is particularly important there. Stewardship of purpose is important for marshalling people's natural impulse to learn.

New skills

Building shared vision: how do people come together to create shared visions? The hologram is a good metaphor because each part contains a piece of the whole. In organizations, each person contains a part of the whole organization. When the pieces of a hologram are added up, the image becomes more intense. When many people share a vision, it becomes more real. Here are the skills needed to build shared vision.

encouraging personal vision: shared visions emerge from personal visions.

communicating and asking for support: share the vision, and ask for feedback.

envisioning as an ongoing process: building shared vision is a never-ending process.

intending extrinsic and intrinsic visions: a vision predicated solely on defeating a competitor would eventually weaken an organization because it can become overly defensive, as opposed to innovative or creative.

distinguishing positive from negative visions: "Two fundamental sources of energy can motivate organizations: fear and aspiration. Fear, the energy source behind negative visions, can produce extraordinary changes in shorter periods, but aspiration endures as a continuing source of learning and growth."

surfacing and testing mental models: new ideas often fall by the wayside because they conflict with existing mental models. Few leaders possess the skills to challenge assumptions without provoking defensiveness.

seeing leaps of abstraction: our minds move at lightning speed and leap to generalizations that we never think of testing.

balancing inquiry and advocacy: advocacy skills that helped a manager get promoted become counterproductive at higher levels where complex problems require collaborative learning.

distinguishing espoused theory from theory in use: many organizations purport to believe in something, but their actions reveal something different. Deep learning requires that people in organizations see this.

recognizing and defusing defensive routines: these are "Entrenched habits used to protect ourselves from the embarrassment and threat that come with exposing our thinking." These make it difficult to expose mental models and thereby lessen learning. One way to cut through this is to be more open about one's own defensiveness.

Systems thinking: seeing the big picture requires systems thinking, which good leaders tend to do intuitively. The field of managerial systems thinking has emerged as a field of practice to suggest some skills:

seeing interrelationships, not things, and processes, not snapshots: we see the world in linear, static images without realizing how connected we are to each other.

moving beyond blame: systems thinking shows us that there is no outside—that you and the cause of your problems are part of a single system.

distinguishing detail complexity from dynamic complexity: "Detail complexity arises when there are many variables. Dynamic complexity arises when cause and effect are distant in time and space, and when the consequences over time of interventions are subtle and not obvious to many participants in the system. The leverage in most management situations lies in understanding dynamic complexity, not detail complexity."

focusing on areas of high leverage: "Small, well-focused actions can produce significant enduring improvements, if they are in the right place."

avoiding symptomatic solutions: quick fixes lead to temporary relief but even greater problems later on. Sometimes the most difficult leadership acts are to refrain from intervening through popular quick fixes and to keep the pressure on everyone to identify more enduring solutions.

Systems thinking by leaders is very important. Managing at the level of events (as many charismatic leaders do) can lead to an organization whose decision-making is dominated by events and reactivity. People become burned out and cynical. "Visionary strategists" who see both patterns of change and events do a better job, but can end up creating a responsive rather than a generative orientation. Many leaders with intuitive systems approaches cannot articulate their thinking. They often seem authoritarian. "I believe that [a] new sort of management development will focus on the roles, skills, and tools for leadership in learning organizations".

Discussion Questions

1. "*Human beings are designed for learning*": is this true?

The author makes a persuasive case. Infants don't need lessons to walk, talk, or master spatial relations. In short, as he puts it, "Children come fully equipped with an insatiable drive to explore and experiment." Many students will find this compelling. But others will disagree. Perhaps for many of them, sitting in their university classes, "learning" has lost its joy and become a chore.

2. What do you think of Deming's assertion that "*Our prevailing system of management has destroyed our people*"?

It should be interesting to see how students react to this. Deming gives a lengthy list of good things that people are born with—intrinsic motivation, self-esteem, dignity, curiosity to learn, joy in learning. Perhaps some students will argue on some of these points. Many students feel, for example, that workers can be motivated only extrinsically. Some may even argue that there is little joy in learning. But in making that argument they may be thinking of the very things that Deming mentions as “forces of destruction.” In schools those are things like prizes for Halloween costumes and gold stars for good grades. In organizations, people, teams and divisions are ranked and rewards are given to those on top. Those on the bottom are punished. Other organizational practices that destroy intrinsic motivation and the joy of learning are MBO programs, quotas, incentive pay, and business plans. Some students will balk at this list, but others may come to see the deleterious effects of some of these items.

3. In what way can it be said that performing for someone else's approval leads to mediocre performance?

This is one of those systems thoughts for which Senge is well known. According to Senge, others are concerned mostly with controlling. Performing for those others therefore means being controlled by them. Being controlled by them means making sure not to deviate from dictated standards. This need for surety leads to lack of desire to experiment, lest one make an error. Failure to experiment means that learning will suffer. If learning suffers, performance will suffer (if not in the short run, then in the long run) because superior performance depends on superior learning.

4. The author says that no one person can learn for the enterprise. Do you agree?

This may violate the assumptions of some students who still cling to the “commander model” of strategic management. The planning and design schools of strategy are based on the idea that some very smart person or small group of people can learn enough to form the strategy of an entire corporation. But, as Pascale says in the reading “The Honda Effect,” this “big brain” approach may no longer work. The “little brains” approach, where everyone in the organization joins in the effort to implement (and learn), is the way to go as complexity increases.

5. How is generative learning important for organizations?

Many students will answer, “In no way.” The adaptive learning mentioned by the author is what dominates most conversations about organizations. The “job” of the organization is to fit with (i.e., adapt to) its environment in such a way that it succeeds. The idea of generative learning is too soft for many people, students and otherwise. But the author makes an eloquent case for “generativity.” “The impulse to learn, at its heart, is an impulse to be generative, to expand our capability.” Expanded capability is strategically a good thing because it requires looking at the world in a different way. With all the evidence that one cause of failure is the firm's inability to change its business model (its way of thinking about how to do business), anything that helps to change thinking, like generative learning, is good. The author's contrast between Japanese and American manufacturing systems is very apt on this point.

6. What is your reaction to the author's description of the typical Western view of leadership and his suggestions for a new approach to leadership?

The author characterizes this view as individualistic, non-systemic and prone to hero worship. Many students will resist this characterization, but it is probably an accurate one. The author first mentions here a new approach. Leaders must be teachers, designers and stewards. They must build shared vision, encourage systemic thinking, and surface mental models. At this point in the reading, most students will likely be confused because this approach is so different from the prevailing one. But Senge elaborates on each point and in the balance of the reading makes a compelling argument for his new approach to leadership.

7. *What is your reaction to the author's concept of "creative tension"?*

This is one of the more mysterious ideas in the reading. Essentially, creative tension is the gap between the desired future (vision) and the present state of affairs (current reality). Senge and his colleague Robert Fritz assert that the mere existence of this gap is enough to motivate behaviour toward change. The main job of the leader here is to articulate both ends of this concept. He/she must clearly state the future vision of the organization, but also help its members be honest about current reality. Just doing these things should be enough to motivate change, if the theory of creative tension is correct. It's not clear how students will react to this, but they should be encouraged to keep an open mind about it.

8. *How does the principle of creative tension differ from problem-solving?*

At first glance it may seem not to differ at all. Problems are typically defined as a gap between a desired state and what currently exists. Since creative tension is the gap between future vision and current reality, the analogy seems airtight. But there is a distinction—that the impetus for problem solving loses steam as the problem approaches solution. In other words, the motivation is extrinsic. But in creative tension, there is always a possibly better future vision, so there is no loss of impetus as one moves away from current reality. The motivation is intrinsic. It is to create. This distinction mirrors the distinction between adaptive learning (problem solving) and generative learning (creative tension).

9. *How is the role of "designer" to be carried out?*

It is really an organization-building activity. The first step is to design the organization's governing ideas—purpose, vision, and core values. The second step is to put in place the policies, strategies and structures that translate the guiding ideas into action. This used to be viewed as the bailiwick of top management, but is increasingly seen, with the greater emphasis on emergent strategy, as the work of everyone in the organization. The third design responsibility is to put learning processes in place. In this phase, planners realize that their task is to foster learning, not devise plans. This is where they end up with their greatest impact.

10. *In what way is the leader a teacher?*

Since so many students see the role of teacher as one of imparting knowledge, many will misinterpret Senge here. He does not mean that at all. Rather, he means that leaders help people with their mental models. Events are driven by patterns of behaviour, which in turn are driven by systemic structure. Most people, and most managers, deal with the events of the world. A few better leaders focus on patterns. Both types of leaders create reactive or at best adaptive organizations. But the best leaders must teach their organization's members to see the *systemic structure* underlying behaviour and events. These are the organizations that are generative. It is in the context of discussing this question that the notion of systemic structure needs to be driven home to students.

11. *In what way is the leader a steward?*

Many students will be intrigued by Greenleaf's idea of the "servant leader," someone whose motivation to lead stems from a desire to *serve*. Other students will be puzzled, because this way of thinking about leadership is so at odds with the traditional, hero-oriented view of leaders. But the case for servant leadership is strong. Senge says that such a person must serve two things. First, he or she must serve the people who belong to the organization. Leaders' decisions can have profound effects on the people who inhabit organizations. This may be particularly true in learning organizations. Second, he or she must serve the organization's larger mission. It is only through a compelling mission or vision that people will be intrinsically motivated.

12. *What do you think of the author's comparison of the organization to a hologram?*

Since few students are familiar with holograms, they may not know how to react to this comparison, which is also used in Gareth Morgan's classic *Images of Organization*. In a hologram, each part contains an intact image of the whole. The analogy in an organization would be that each member would carry an intact image of the organization around in her or his head. This would be a personal vision. When the partial images in a hologram are brought together, the image is sharp and intense. Similarly, when the personal visions of the organization's members are brought together, the shared vision becomes a culture or a strategic intent (a la Hamel and Prahalad). This shared vision is compelling and helps propel the people in the organization away from current reality and toward their shared vision of the future.

13. *Did any of the "visioning skills" surprise you?*

Of course students' answers to this list will vary, but there seem to be some new items mixed in with items that have become "common sense." Among the latter are the ideas that visions must be supported and must be constantly rebuilt. More surprising is the notion that personal vision should be encouraged. Too much of the literature on vision emphasizes the common nature of it, but Senge points out that shared vision must almost by definition involve the blending of personal visions. Another surprising one is the notion of the need to blend extrinsic and intrinsic visions. This relates to his earlier point about the distinction between adaptive and generative learning. People may be compelled for a while with the goal of beating a competitor, but in the long run they will be driven further by their intrinsic desire to create something new. Related to this is the final skill, distinguishing positive from negative visions. Fear is, in the long run, less of a motivator than aspiration. Too many leaders wait until the organization is facing a crisis before pulling the organization together. Once the threat has passed, the urgency to act decreases. This does not happen when the organization's vision is an aspiring, creative one.

14. *How do you react to the four skills of "surfacing and testing models"?*

This will be new and unfamiliar material to any student who has not read *The Fifth Discipline* or the work of Chris Argyris. The first point, "seeing leaps of abstraction," is related to what Argyris has called the *ladder of inference*. Human beings are "sensemaking" creatures who are able to make interpretations of even the most puzzling phenomena. The problem is that frequently our sensemaking gear jumps well ahead of "real" data. The antidote to this is balancing inquiry and advocacy. Managers must get themselves and their members to ask questions about their assumptions (inquiry) while they are stating them (advocacy). The recent interest in *dialogue* is an attempt to do this. Distinguishing espoused theory from theory in use is analogous to the difference between intended strategy and realized strategy. Talk is cheap; we can state that our philosophy is such-and-such, but it is our *actions* that speak the loudest. Good leaders give us the insight to see such inconsistencies. Lastly, groups of people in organizations limit their collective insight into mental models by using "defensive routines." These are highly skilled, entrenched habits designed to protect us from the embarrassment and threat that would accompany honest sharing of our views. Defensive routines are what make the "hallway conversations" that follow meetings more meaningful and honest than the meetings themselves. Developing skills in balancing advocacy and inquiry (perhaps through dialogue, mentioned earlier) helps tremendously to overcome these routines.

15. *What are the lessons of systems thinking?*

This material will be unfamiliar to students who have not read *The Fifth Discipline*. "Seeing interrelationships, not things, and processes, not snapshots" relates back to Senge's points in the section on the leader as teacher. People in organizations must begin to see events (snapshots) as emanating from patterns of events that are rooted in systemic structures (interrelated processes). Moving beyond blame stresses the point that actors are part of the systemic structure they inhabit. Until they and all

other participants in the system design a newer, better one, the results are likely to remain the same. The two sides who are part of an escalating arms race are equally responsible for the perpetuation of their system of escalation. "Distinguishing detail complexity from dynamic complexity" means becoming more aware of how causes and effects may be distant in time and space. Problems an organization is having today may be rooted in decisions it made long ago in locations distant from those experiencing current problems. A good example is the decline of IBM, which can in part be traced to its *success* in the mid- 1960s. That success so enlarged IBM that decision stakes went up, driving the company to a conservative, bureaucratic decision-making style that ultimately hurt it in the 1980s and 1990s.

"Focusing on areas of high leverage" sounds easy, but it actually requires somewhat sophisticated modeling of the system in question. Once all the interrelationships in a system have been mapped by the members of the organization, it is possible to simulate the system to discover where the least effort or smallest change will provide the greatest benefit. This is leverage. "Avoiding symptomatic solutions" is related to a "systems archetype" that Senge discusses at length in *The Fifth Discipline*. The gist of this is that quick fixes (i.e., symptomatic solutions) often produce good results; that is why quick fixes are so often used. The problem is that the quick fix works for only a while. When it stops working, the usual response is to use it again, only more so. This creates the archetypal system of "shifting the burden," so called because the repeated use of the quick fix weakens the organization's ability to find and implement a fundamental solution. In effect, the burden of solving the problem has been shifted away from fundamental solutions to ever-increasing quick fixes.

16. What is the point of the Lao Tsu quotation, "The great leader is he who the people say, 'We did it ourselves'?"

In some ways this related back to the point on leader as *servant*. What is important is *not* that the leader achieve power or gain adulation or reverence. What is important is that he or she *steward* a compelling vision, *design* a healthy system and *teach* people to throw off defensive routines and otherwise be able to see mental models and systemic structure. In doing this the leader will harness the immense collective power of the organization's membership. If he or she is very skilful, the members of the organization may not fully appreciate the leader's contributions because of their subtlety. Of that leader, the organization's members will say, 'We did it ourselves'. That would be the ultimate in humble, self-effacing servant leadership.

HUY, "IN PRAISE OF MIDDLE MANAGERS"

Summary of Reading

The approach is similar to that of the Pitcher reading (three ideal types of manager: artist, craftsman, and technocrat), but differs in focusing on four ideal types of roles (entrepreneur, communicator, therapist, and tight-rope artist) that can be played by any *given* manager, rather than different managers. More explicitly than any of the other readings in this chapter, however, this reading focuses on the *middle* manager's – and in particular the long-standing middle manager's - various roles in strategy-making, and more particularly strategic change. These roles are essentially a function of the middle manager's position in the hierarchy, which gives him or her exposure to both the rich information flowing from front-liner workers and the "big-picture" abstractions of senior management such that middle manager are crucial to tying the two together.

Long-standing middle managers, especially ones, are a crucial source of well-grounded new business ideas that they are able and willing to realize: they are *entrepreneurs*. And it is through their ability to

leverage extensive informal networks within, but also outside the company – rooted in years of job rotation and promotion in the company - that crucially enable middle managers to get new ideas and change implemented role: they are *communicators* of the need for change. A third crucial role played by these middle managers is that of creating a climate of reassurance in the midst of change: in this role of *therapist* the middle manager, through direct and personal relationships, addresses the emotional needs of subordinates. Finally, in times of strategic change an organization needs to continue with a business as usual to a significant degree – serving established customers in well-understood while simultaneously navigating the move to a new way of doing business. The hands-on attitude and deep-rooted understanding of what makes the organization work that typifies the middle manager means that as a group they execute this *tight-rope* role, with some middle managers emphasizing the continuity aspect of change, and some the novelty aspect.

Discussion Questions

1. *One way to think about whether a given level in a hierarchy creates value is to determine whether it helps subordinate level to better understand their work, i.e., gives context to that work. What does this test imply for the role of middle managers, as identified in the reading?*

The author asserts that the role of middle managers has been under-rated, and that close attention to what they do reveals how they contribute. And we can see their contribution as essentially giving context to the work of their subordinates: they draw upon front-line information and make conceptual leaps with it to innovate; they help re-channel the work of individual subordinates so that it collectively flows in a new direction; they help reassure subordinates about their future through helping them manage the anxiety-inducing aspects of changes in their work, marrying continuity with the past to a changed future. Therefore middle managers add value by addressing the innovation, integration (across tasks and across time), and psychological contexts of their subordinates' work

2. *One uncommon aspect of this reading is the attention it gives to the interaction between emotion and strategic change. What do you think are some sources and consequences of this interaction?*

In general we can say that change creates uncertainty, and uncertainty creates anxiety, and this anxiety may be especially profound when the uncertainty is about one's continuing income or career. The author therefore correctly identifies the value-added contribution of those (i.e. middle managers) who can help manage this anxiety throughout the organization in times of change. However, a more specific approach to this question would be to recognize that strategic or radical change refers to a fundamental change in the firm's core identity. Consistent with notions of configuration and fit developed in Ch. 1, this deep change in core identity often requires concurrent shifts in organization structure, systems, and personnel. This implies a major and pervasive redistribution of resources and power, which is already highly upsetting in itself, but also a shift in fundamental mindset such that organization members' most basic assumptions about the nature of the organization are challenged. These assumptions are crucial in how people make sense of their work, their place in the organization, and indeed in society: members have "emotionally invested" in these assumptions. Challenging this source of cognitive and emotional stability, which is what strategic change does, is tantamount to attacking core identity and, thus, could trigger strong defense mechanisms, such as anxiety, defensiveness, and resistance.

3. *Is identifying distinct roles that managers play a good way to understand managerial work?*

This is the third of three readings in this chapter to adopt this approach (the Mintzberg and Pitcher readings being the others). Interpreting managerial work in this way provides a language that defines different aspects of the job in a general sense. This is useful because it helps us understand that, for example, middle managers in marketing or manufacturing or finance have much in common, though the operational detail of their work will be significantly different. This helps illuminate the capabilities an individual needs to have to occupy a managerial position. This can inform hiring and training efforts,

and the “portfolio” of managers (e.g. a particular mix of Pitcher’s three types; or of old-timers and new hires as the Huy reading would suggest). individuals that an organization needs to maintain at each level of the hierarchy, or at certain periods (e.g. of major change). This “role typification” approach can also help managers become more aware of their own approach and the alternatives available to them. The downside is that thinking in such a way can result in either fragmentation of thinking or thinking in terms of categories and stark but simplistic caricature, where an individual is typecast as being, say, “just a technocrat” and his actions and potential

CHAPTER 3: FORMULATING STRATEGY

ANDREWS, "THE CONCEPT OF CORPORATE STRATEGY"

Summary of Reading

I. The Strategy Concept

Strategy is a pattern of decisions; it *determines and reveals* objectives, purposes, goals, it *produces* the principal policies and plans for goal achievement, and *defines* the range of business the company is to pursue, the kind of economic or human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities. Strategic decisions cover long periods of time and commit large amounts of resources. The pattern defines the central character of the company, its image, and its position in its industry and markets. The pattern will allow the specification of action plans and resource allocations. Parts of the pattern will rarely change, while other parts will change greatly. Company character is likely to persist. A strategy must be set of integrated goals and policies that crystallize from the formless reality of a company's environment a set of problems an organization can seize upon and solve.

A summary statement of strategy will describe product line or services, offered or planned; markets and segments served, present and planned; distribution channels; financing methods; profit objectives; statement of the relative emphasis on safety versus return policy in central functions (marketing, manufacturing, procurement, R&D, labour, relations, and personnel); and statements about organizational size, form, and climate.

Corporate strategy is an organizational process that may be analytically divided into formulation and implementation. Formulation has several sub-activities. First is what the firm *might* do, i.e., identifying the threats and opportunities in the environment. Second is what the firm can do, i.e., appraising the firm's strengths and weaknesses. Third is what the firm *wants* to do, i.e., considering the personal values of the top management. Lastly, there is what the firm *should* do, i.e., the ethical aspects of strategizing. Implementation of sub-activities are primarily administrative. The first is the design of an appropriate organizational structure. The second is the directing of organizational processes and systems, e.g., performance measurement, motivation, control, recruitment, and development. Lastly, there is the role of personal leadership.

II. Relating Opportunities to Resources

The nature of a company's environment may be described in terms of technology (the fastest-changing and most far-reaching element), ecology (trends in the protection of the physical environment have become much more important), economics (generally one of the better-monitored areas), industry (risks are often blurred by familiarity and uncritical acceptance of the status quo), society (demographic trends, cultural trends, changes in attitudes), and politics (East-West relations, North-South relations, and business/government relations).

To carry out a strategy, organizations must know their strengths and weaknesses, i.e., corporate competence and resources must be identified. This is actually more difficult than environmental analysis, because of subjectivity, lack of confidence, and unwillingness to face reality. Sources of capabilities include:

- experience in making and marketing a product line, or providing a service;
- strengths and weaknesses of the individuals in the firm;
- the degree to which individual capability is effectively applied to the common task;
- the quality of the coordination of individual and group effort.

The distinctive competence of an organization is more than what it can do; it is what it can do particularly well. Start by defining the functions served by the firm. Examine also the skills that underlie whatever success has been achieved, such as new product development, marketing services, distribution methods, new quality-price combinations, and creative merchandising.

Matching opportunity and competence is what establishes a company's economic mission and its position in the environment. Aside from distinctive competence, the principal resources found in any organization are money and people; technical and managerial. "At an advanced stage of economic development, money seems less a problem than technical competence, and the latter less critical than managerial ability." Finally, "In each company, the way in which distinctive competence organizational resources, and organizational values are combined is or should be unique."

Discussion Questions

1. How does the definition of strategy given here relate to those given in other readings?

Andrews's definition of strategy relates well to 3 of the 5 definitions Mintzberg gives in his Chapter 1 reading "Five Ps for Strategy." Given the emphasis Andrews places on deliberation and formulation, the definition relates strongly to strategy as plan; a consciously intended course of action, made in advance of that action, and developed purposefully. Andrews prescribes a systematic look at external threats and opportunities and internal strengths and weaknesses, taking into account the values of top management and the firm's ethical responsibilities. He also encourages detailed "summary statements" of strategy (i.e., plans). But Andrews also uses the word "pattern" quite often in his definition and discussion. He seems to acknowledge that a series of resource allocation decisions speaks louder than the words of a document. This is clearly related to Mintzberg's "strategy as pattern." Andrews goes on to say that the pattern defines the central character of the company. He talks about how this will change only slowly, and he gives examples such as commitments to quality or high technology or good labour relations. These are all related to the concept of strategy as perspective. Lastly, he says that the pattern defines the position the company will occupy in its industry and markets. In other words, his definition also relates to strategy as position.

2. *What does Andrews mean when he says that we should not “separate goals from the policies designed to achieve those goals”?*

He means that you should not be doing something (a policy) unless you can say why you are doing it (an objective). Otherwise it is difficult for the organization to make a meaningful contribution. He puts it eloquently: “It is the interrelationship of a set of goals and policies that crystallizes from the formless reality of a company's environment a set of problems an organization can seize upon and solve.”

3. *How can it be said that “deciding what strategy should be may be approached as a rational undertaking”?*

This is a pure value judgement by Andrews, one with which many, particularly Mintzberg, would disagree with. What he is saying is that he thinks it is possible to sit down and rationally decide what strategy *should* be. One should, he says, examine threats, opportunities, weaknesses, strengths, managerial values, and social responsibility. One should then match opportunity and competence and formulate a unique strategy.

4. *Andrews says that strategy formulation is a four-way balance among what a firm might do, can do, want to do, and should do. What do you think of this idea?*

Most students will agree with this statement. It is really nothing more than Andrews's idea that one should examine threats and opportunities (might do), weaknesses and strengths (can do), managerial values (wants to do), and social responsibility (should do). Some students may disagree with the very logical, almost cookbook quality of the model.

5. *In what sense can it be said that structure follows strategy, but that strategy also follows structure?*

Andrews believes the first part of this statement to be a logical proposition. In other words, strategists should examine the structural requirements of any strategy and design, or adjust the organizational structure accordingly. The second part of the question is “organizational reality”. What he means is that a firm's existing structure is likely to shape its future strategy, in at least two ways. First, the structure should be well-suited for the strategy for which it was designed, so there is a bias for continuing that strategy. Second, the existing structure is one of the elements shaping the way people in the firm think, which also biases action in favour of strategies consistent with the status quo.

6. *To what extent can it be said that “if purpose is determined, then the resources of a company can be mobilized to accomplish it”?*

This statement is typical of the attitude of thinkers in the strategy formulation school. In their view, the most difficult thing about strategy is formulating it, i.e., determining purpose. Once you've done that, they assert, implementation (mobilization) is straightforward. This is at best an oversimplification. At worst, it ignores the incremental nature of forming strategy from a synthesis of the pieces floating by in the stream of action in which the firm is immersed. Talking about the formation of purpose, as an activity that *precedes* mobilization, is inaccurate. It may be that the best objectives are not formulated in any strict sense but evolve from an indescribable mix of operating decisions. In other words, the action or mobilization may occur first, with the purpose being determined later.

7. *How can it be said that if members of an organization can reach a consensus about the organization's core competence, then its application to identified opportunity can be estimated?*

If an organization can figure out what is its core competence, it has a chance to make a contribution, to solve some problems or fill some needs. It can do this by seeking out opportunities and problems, which its distinctive competence can exploit or solve. If it is not known what it's good at, it can make

no such moves. Andrews's point is that this self-knowledge is essential, but the method of attaining it is not. Even if strategists discern their organization's competence in a subjective way, that is adequate.

8. *What are the implications of the statement that “The insight required to identify the essential strength justifying new ventures does not come naturally”?*

Andrews is saying that a firm which is very good at something often comes to take its skill for granted. It may not even know what is the underlying strength beneath the skill. The implication of this is that strategists must devise ways to penetrate that barrier of familiarity. Andrews offers only the “recognition of the need for analysis”. Others have offered things such as the Devil's Advocate and dialectical inquiry techniques, or the notion of counterbalanced prescriptions.

9. *What do you think of the authors assertion that “Money seems less a problem than technical competence, and the latter is less critical than managerial ability”?*

This question is designed to stimulate discussion and to open the eyes of students to an interesting point made by Andrews. Most students assume that the biggest resource constraint facing organizations is financial. They further assume that managerial and technical talent is about balanced in importance. Andrews argues that the most important resource constraint is management talent. Technical talent is the second most important, and money is last in importance. As evidence he points to the many instances of diversification where the money to diversify was there, but the talent to manage the new parts of the company was not. When one reviews the points made in the previous chapter, about the skills needed by strategic managers, one realizes just how rare they are.

RUMELT, "EVALUATING BUSINESS STRATEGY"

Summary of Reading

When a firm is either formulating or adjusting strategy, strategy evaluation is needed. The latter is an attempt to appraise the fundamental factors and trends that govern organizational success. Strategy evaluation must answer three questions: Are the objectives of the business appropriate? Are the major policies and plans appropriate? Do the results obtained to date confirm or refute critical assumptions on which the strategy rests? These are difficult questions; insight and a reasonable store of situation-based knowledge are required. It complicates things that strategy is unique for each firm. Also, strategy is concerned with the selection of goals and purposes, which are easier to set than to evaluate (partly because people are better trained in problem solving than in problem structuring). Lastly, there are problems of conflict, usually concerning who is competent to evaluate strategy.

Four Tests of Strategy

Strategy is “a set of objectives, policies, and plans that, taken together, define the scope of the enterprise and its approach to survival and success. Alternatively, we could say that the particular policies, plans, and objectives of a business express its strategy for coping with a complex competitive environment.” Strategies must be submitted to tests, which will fall into one of four categories: *consistency* (the strategy must not present mutually inconsistent goals and policies), *consonance* (the strategy must represent an adaptive response to the external environment and to the critical changes occurring within it), *advantage* (the strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity), and *feasibility* (the strategy must neither overtax available resources nor create insoluble subproblems).

Consistency may be a problem if the strategy has evolved or if a formulated strategy contains compromises. Consistency is needed to provide coherence to organizational action. Indicators of strategic inconsistency include conflicts that persist despite changes in personnel, success for one

department meaning, or being interpreted to mean failure for another; and operating problems that continue to be referred upwards (despite attempts to delegate) for *policy* resolution. There must also be consistency between objectives and top management values.

Consonance exists when the basic mission or scope of the firm matches its environment over time; the firm will then have a *generic* strategy. Critical threats form without usually threatening an entire group of firms. The key to evaluating consonance is understanding why the business exists at all, and how it assumed its current pattern.

Competitive strategy focuses on the differences among firms rather than their common missions. It is the art of creating or exploiting those advantages that are most telling, enduring, and most difficult to duplicate. *Competitive advantage* can normally be traced to one of three roots: (1) superior resources; (2) superior skills; or (3) superior position. The first two are obvious. The third comes from intelligent arrangement of resources, to enhance their combined effectiveness. Positional advantage tends to be self-sustaining and defensible. That means that it (1) returns enough value to warrant its continued maintenance, and (2) would be too costly to capture, so rivals are deterred from attacks on the core of the business. The two most common manifestations of positional advantage come from size and scale. Some type of uniqueness is a prerequisite. Successful trade names are another type of positional advantage. Other sources include geographical location, service leadership or experience, and good reputation.

The test of *feasibility* asks whether the strategy can be attempted within the physical, human, and financial resources available. Financial resources are the most easily quantified and are normally the first limitation against which strategy is tested. The less quantifiable but more rigid limitation on strategic choice is that imposed by the individual and organizational capabilities that are available. Answering three questions helps assessing capability: Has the organization demonstrated that it possesses the problem solving abilities and/or special competencies required by the strategy? Has the organization demonstrated the degree of coordinative and integrative skill necessary to carry out the strategy? Does the strategy challenge and motivate key personnel and is it acceptable to those who must lend their support?

The political structures of firms make strategy evaluation an implicit process that is difficult to separate from planning, reporting, control, and reward systems. It is less an intellectual task, more a continual organizational process. "Ultimately, a firm's ability to maintain its competitive position in a world of rivalry and change may be best served by managers who can maintain a dual view of strategy and strategy evaluation—they must be willing and able to perceive the strategy within the welter of daily activity *and* to build and maintain structures and systems that make strategic factors the object of current activity."

Discussion Questions

1. *What does the author say is the whole point of strategy? What is your assessment of this statement?* He says that "the critical factors determining the quality of results are often not directly observable or simply measured, and that by the time strategic opportunities or threats do directly affect operating results, it may well be too late for an effective responses." He continues, saying that strategy evaluation should appraise "those more fundamental factors and trends that govern success in the chosen field of endeavour." In other words, in Rumelt's view, strategy evaluation should be very much forward-looking. Students will react to this in various ways. It's difficult to disagree with the statement. But it is certainly possible to wonder about how one goes about fulfilling Rumelt's prescription. No one has a crystal ball to examine the future. Recall, too, that in an earlier reading Quinn pointed out that

strategy deals not only with the unpredictable, but also with the unknowable. This makes forward-looking strategy evaluation difficult.

2. What are the implications of strategy evaluation's needing "a reasonable store of situation-based knowledge and more than the usual degree of insight"?

The first of these points implies that people intimately familiar with the situation being evaluated must do strategy evaluation. It is not an abstract analytical activity that can be done by anyone, e.g., a consultant. It must be done by people who are so familiar with the business, and all the conditions surrounding it, so that they can make an informed evaluation. The second point implies that the evaluators must nevertheless be able to detach themselves from the strategy and the situation, so that they can examine it thoroughly and "see things that might be hidden if they keep their perceptual filters on."

3. Strategy evaluation rests on situational logic. How might this be a problem, if at all?

It is a problem only if one is looking for universal solutions to strategic problems, as an outside consultant might. Universal solutions in management have been discredited for a long time. Rumelt is saying here that it is possible to strategically succeed in many ways. It is up to the well-informed strategy evaluators to have the proper feel for whether a given approach is appropriate for the given firm. Rumelt's thinking here is certainly consistent with Mintzberg, who argues that successful strategy will develop over time as highly-involved managers carefully nurture it.

4. What is the difference between problem solving and problem structuring? Do we over-emphasize the former, leading to difficulties?

A problem is a condition where the decision-maker is not achieving her or his desired state. Problem solving means returning to normalcy by taking action to achieve that desired state. Problem structuring means identifying the problem in the first place. It is much more difficult than problem solving. Rumelt says that people find it easier to set goals than to evaluate them. Goal setting is a problem solving activity—we specify the desired state we wish to achieve. Goal evaluation is a problem structuring activity—we try to figure out which are the best goals, or whether the goals we have are good or not. There is little question that in most business education programs, problem solving is taught better than problem structuring. Many excellent tools have been developed to facilitate problem solving. There are virtually no tools for problem structuring. In this reading, Rumelt is suggesting some problem structuring tools - his four tests. Rigorous, and successful, use of his tests would help strategists decide whether goals were adequate: are the goals consistent? Do they confer an advantage? Are they adaptive to environmental demands? Can they be achieved given our skills and resources?

5. Is there a tendency to confuse values with objectives? If so, why does this create problems?

Rumelt makes an interesting assertion here. He argues that people confuse values (fundamental expressions of human personality) with objectives (tools for directing organizational action). There is probably no right answer to this question. Some people will agree that people get too bound up in their value systems when they are setting or evaluating objectives. Others will disagree. If organization members *do* confuse values and objectives, then evaluating objectives becomes very difficult. They will find it difficult to be unbiased about objectives, which they feel cut right to the heart of their value systems. This is similar to the point Selznick made about institutions having value and being difficult to change.

6. If we reject Rumelt's definition of strategy, what does that do to the validity of his four tests?

Rumelt's definition of strategy fits squarely into the idea of strategy as plan. He says that the set of objectives, policies, and plans that guide its approach to success is the strategy, or they are the expression of it. As Mintzberg pointed out in Chapter 1, this is only one way of looking at strategy. It may be defined in at least three other ways—pattern, position, and perspective. If we reject Rumelt's definition, his four tests, with the possible exception of consistency, are still valid. Even if the strategy is mostly emergent, chances are that the strategists agreed upon the pattern because it was consonant with what the environment wanted. Or it fit the capabilities of the organization (it was feasible). Similarly, the advantage test fits with the notion of strategy as position. Whether a firm's management chose particular strategies because of deliberate attempts to gain advantage, or things just emerged that way, is not as relevant as the existence of the advantage. Mintzberg's ideas about deliberate and emergent strategy really deal only with intentions and realization. They do not get to soundness of the intentions or the realized strategy. Rumelt's four tests, by contrast, go directly to the question of whether or not a strategy (intended or realized) is a good one.

7. *A key function of strategy is to provide coherence to organizational action, but how truly necessary is it to state the strategy clearly and explicitly?*

This is something of a trick question. Rumelt says that a clear and explicit concept of strategy “can foster a climate of tacit coordination that is more efficient than most administrative mechanisms”. However, he does not actually advocate an explicit *statement* of strategy, only a clear and explicit *concept* of strategy; policies may be transmitted to organization members over time as part of the mix of operating decisions. Strategy may not even be written down - it might not even be possible to easily articulate it. But members would know what it was, and it would provide tacit coordination.

8. *What is the point of the author's discussion of values and strategy?*

If one is formulating strategy, one must take managerial values into account. If one is evaluating strategy, the same is true. The strategy in either case must be consistent with management values. If it is not, it is generally the strategy that must be changed, not the values (which are usually close to immutable). Rumelt cautions, though, that strategists must be careful when making these adjustments; they must give “special attention to a firm's competitive position.”

9. *How is the distinction between generic and competitive strategy related to Mintzberg's five Ps of strategy from Chapter 1?*

In his discussion of strategy as position, Mintzberg discussed how most uses of this concept focused on the idea of competition. This would fit with Rumelt's advantage test, which is associated with competitive strategy. But Mintzberg also said that the view of strategy as position could be based on the achievement of any viable position, whether or not directly competitive. This fits with Rumelt's consonance test and the notion of generic strategy. As he puts it: “The role of the evaluator in this case is to examine the basic pattern of economic relationships that characterize the business and determine whether or not sufficient value is being created to sustain the strategy.”

10. *In discussing position, the author proposes two kinds of advantages—those related to size, and those related to uniqueness. How does this mesh with the Porter readings in the next chapter?*

Positional advantage based on size is related to Porter's *Cost Leadership* strategy. This is because size has had a tendency to be associated with economies of scale, which in turn lead to lower costs. Advantage based on uniqueness is related to differentiation. Actually, differentiation *is* advantage based on uniqueness.

11. *Rumelt says that individual and organizational capabilities are “more rigid limitations on strategic choice” than the more quantifiable resources. How could this be? How does this relate to the Andrews reading?*

It takes a long time to modify individual and organizational capabilities. People have to be trained, retrained, or hired outright. Organizations have to be redesigned. Work groups have to be formed, reformed, or modified. Technology has to be transferred, and so forth. Quantifiable resources, especially cash, are extremely flexible. There are at least four ways to get money: make a profit, borrow it, get people to invest, or sell assets. Some of these ways can be very fast—getting loans secured by inventory, for example. This point is closely related to Andrews's point that “money seems less a problem than technical competence, and the latter (is) less critical than managerial ability.”

12. *How does the author relate consistency to feasibility?*

Rumelt sees consistency as a way of creating organizational skills that could contribute to making more strategies feasible. He says that one of the sub-tests of feasibility is the degree of coordinative and integrative skill extant in the organization. Earlier, he argued that consistency facilitated coordination, integration, and the firm's ability to mobilize its resources. So consistency, if it can build these skills

and abilities, is related to feasibility. He also says that managers must be motivated by the strategy. If they are not, then it fails in a major way. One could argue that this relates to his earlier comment that strategy must be consistent with the values of management.

13. So, is strategy evaluation a purely intellectual task or an organizational process? Which should it be? What are the implications of each alternative?

The key word is “purely.” Rumelt is saying that strategy evaluation has an intellectual component, but it is too important to be an abstract, *purely* intellectual exercise. He argues that it is tied up in the everyday processes of the firm. It is reinforced by the organization's other systems (e.g., information, planning, reward), but it is one of them, not something apart. He argues that strategy evaluation is something that happens all the time, because it is built into the activities in which the members of the firm engage.

PRAHALAD AND HAMEL, "STRATEGIC INTENT"

Summary of Reading

Regaining competitiveness means rethinking basic strategic concepts. The established Western perspective is fundamentally different from that of the new global competitors – typically, Japanese firms. They started with excessive ambition and then fostered, and sustained, an obsession with winning global leadership. We term this obsession “strategic intent”. This envisions a desired leadership position, complete with criteria for charting progress. It also encompasses an active management process that includes focusing on winning, motivating by communicating the value of the target, encouraging team and individual contributions, sustaining enthusiasm, and using strategic intent to guide resource allocation. Strategic intent captures the essence of winning. It is stable over time, lengthening the organization's attention span but ensuring short-term consistency. It sets a target that deserves personal effort and commitment. American managers talk in terms of shareholder wealth. Firms guided by strategic intent talk in terms of global market leadership. The latter, to beat or stay the best, is more motivational.

Global leadership will emerge neither from planning nor by accident. Nor will it come from “Silicon Valley”-type innovation using tools like skunkworks. A management that waits for entrepreneurial successes from below adds little value. By contrast, strategic intent is clear about ends, but creative about means. Creativity is unbridled but not uncorralled. Top management provides the criterion for testing actions, and middle management must keep their departments heading in the direction specified by the strategic intent. Strategic intent implies sizeable stretch. Traditional thinking about strategy prescribes a fit between capabilities and opportunities. Strategic intent implies an “extreme misfit.” Top management challenges the organization to close the gap by systematically building new advantages.

"Strategic intent is like a marathon run in 400 meter sprints." No one knows the terrain at mile 26, so management focuses the organization on the terrain in the next 400 meters. This might be done with a series of corporate challenges as a way to create focal points for employees' attention in the near to medium term. Again, management is specific about ends but less prescriptive about means. Challenges succeed only when people in the organization understand them and see their implications for their own jobs. Some of the things top management can do include creating a sense of urgency, developing a competitor focus at every level through widespread use of competitive intelligence, and giving the organization time to digest one challenge before launching another. Managers should practice "reciprocal responsibility," sharing pain and gain with their employees. This is crucial because competitiveness ultimately depends on the pace at which the firm embeds new advantages deep within

it. Less important is the stock of advantages at any given moment. The scorecard must be expanded beyond the usual of low costs and price premiums.

Few competitive advantages are long lasting, and the first organization to develop one gains a greater advantage. "The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today An organization's capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all." To win against better-resourced competitors, managers must fundamentally change the game in ways that disadvantage stronger rivals. The goal is competitive innovation, not imitation. Four approaches to competitive innovation have been popular: building layers of advantage, searching for loose bricks, changing the terms of engagement, and competing through collaboration.

A wider portfolio of advantages leads to less risk. Global brands are more defensible advantages than are lower costs. Several Western practices lead to lower advantage levels. "Fast-tracking" of managers creates over-reliance on numbers for management, since managers rarely develop deep business knowledge and must therefore rely on "numbers." Short-term assignments lead either to goals that fail to get commitment or to unrealistically short time frames. "Aiming to be number one in a business is the essence of strategic intent; but imposing a three- to four-year horizon on that effort simply invites disaster." The familiar dichotomy between strategy formulation and implementation "undermines competitiveness by fostering an elitist view of management that tends to disenfranchise most of the organization." Two other reasons for elitist management are (1) successful managers want to perpetuate myths about themselves and (2) top managers don't want to admit that they don't have all the answers when a crisis looms. The latter—a widely perceived threat that no one talks about— creates more anxiety than a clearly defined threat that becomes the focal point for organizational problem solving. "That is one reason honesty and humility on the part of top management may be the first prerequisite of revitalization. Another reason is the need to make participation more than a buzzword."

Administrative innovations require more than new structures. They require genuine two-way communication. Japanese companies win, because they have developed ways to harness the "wisdom of the anthill." Astronauts get the glory, but the real intelligence behind the mission is firmly on the ground. "Developing faith in the organization's ability to deliver on tough goals, motivating it to do so, focusing its attention long enough to internalize new capabilities. This is the real challenge for top management. Only by rising to this challenge will senior managers gain the courage they need to commit themselves and their companies to global leadership."

Discussion Questions

1. What is your reaction to the authors' definition of strategic intent?

Students may be positively impressed by the apparent simplicity of strategic intent— excessive ambition and an obsession with winning global leadership. Strategic intent envisions a desired leadership position, complete with criteria for charting progress. This simplicity and vision base is some of the reason this concept is so appealing. However, its simplicity does not imply that strategic intent is easy. It also encompasses an active management process that includes focusing on winning, motivating by communicating the value of the target, encouraging team and individual contributions, sustaining enthusiasm, and using strategic intent to guide resource allocation. It is vital to get students to realize the great difficulty (and hence the great value) of strategic intent.

2. What is the significance of strategic intent's being "stable over time"?

As several of the Mintzberg readings emphasize, strategy is a force for stability: it *implies* stability. Strategy is a "pattern in a stream of action over time." The coherence needed to create a pattern is

provided by some stability. Strategic intent provides long-term stability (and hence patterning) through its overall vision and obsession with global dominance. It provides short-term stability by helping to guide actions, like resource allocations, “in the moment.”

3. *What is your reaction to the authors' criticism of the "Silicon Valley" approach to innovation?*

Students may have a hard time with the authors on this one. Theirs is a stinging criticism. The authors say that most of the cherished tools of American management: pay-for-performance schemes, quality circles, and especially skunkworks and intrapreneurship—are bankrupt. They assert that managers who wait for entrepreneurial successes from below are “non value-adding.” These are probably valid criticisms, but it should be interesting to see how students react to them. If their faith in some of what they have been taught in other courses is shaken, that is probably a good (albeit upsetting) thing.

4. *What is the significance of strategic intent's being "unbridled but not uncorralled"?*

The authors are, in essence, arguing for "umbrella strategy," to use Mintzberg's term from Chapter 1—set up a motivating and challenging target and let the details of the strategy emerge. The target is the corral, and letting the details emerge is the unbridled aspect.

5. *The authors say that strategy should be an "extreme misfit" between resources and opportunities. What do you think?*

One of the most common complaints in organizations is the lack of resources. So it seems odd that Prahalad and Hamel should be arguing *in favour* of resource constraints. Some students may pick up on the reason—the resource shortage is designed to spur creativity. Firms that have lots of resources that typically let their creativity atrophy. There is no motivation to change anything. So rival firms pass them by. Strategic intent gets around this problem, in theory, by setting up a brass ring that is always out of reach of the company. In striving to grasp it anyway, its members are *forced* to be creative.

6. *What is your reaction to the metaphor of strategic intent being like a “marathon run in 400 meter sprints”?*

Even students who are not into sports should recognize the value of this metaphor. Marathons are sufficiently long races that they *are* analogous to the "never ending journey" of business. But the authors make some changes to adjust for the inevitable breakdown of the analogy. For example, in most marathons, the runners have scouted the course and know the terrain. But in business, no one knows what the future will bring. So cutting the race up into smaller pieces where people *can* know what to expect is a good idea. Another breakdown: most marathon runners pace themselves for the course. But in business, a company that coasts will lose enough in the short distances to end up losing the whole race. So the “runners” must sprint each of the increments.

7. *What do you think of the list of things top management can do to engage the entire organization?*

The list—(1) create a sense of urgency; (2) develop a competitor focus at every level through widespread use of competitive intelligence; (3) provide employees with the skills they need to work effectively; (4) give the organization time to digest one challenge before launching another; and (5) establish clear milestones and review mechanisms to track progress and ensure motivation, is a good one. The overall impression is one of *focused action*, keep moving forward with the needed skills and capacity. The only exception is number four, giving the organization time to digest challenges. People who are sprinting through a marathon need to catch their breath a little bit.

8. *The authors think that “reciprocal responsibility” is crucial to competitiveness. Why do they say that, and what is your reaction to their argument?*

The rank-and-file members of an organization must feel that they are being fairly treated; otherwise they will not be sufficiently motivated. If they are not motivated, they will not do the one thing that is a sustainable advantage, which is keeping up the pace of adding advantages to their operations. Since most students are unlikely to see themselves in the position of C.E.O. anytime soon, they are likely to

understand and agree with the authors here. There may be a few who see management as a ticket to personal fortune, as opposed to organizational achievement, and those may not like the idea of reciprocal responsibility.

9. What do the authors say is the “essence of strategy”? What are the implications of their point?

Few competitive advantages are long lasting, and the first organization to develop one gains a greater advantage. “The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today An organization's capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all.” The implications are clear—the organization's members must constantly be learning new things and new ways of doing things. Whatever you are currently doing can ultimately be copied, so you have to “stay ahead of the curve” by creating new things that force your rivals to copy you even more, and so on. This is difficult and requires a lot of effort by everyone, which is another aspect of the “reciprocal responsibility” mentioned in the previous question.

10. What do the authors say is necessary for winning against stronger competitors? What is your reaction to their argument?

To win against better-resourced competitors, managers must fundamentally change the game in ways that disadvantage stronger rivals. The goal is competitive *innovation*, not imitation. Four approaches to competitive innovation have been popular: (1) building layers of advantage; (2) searching for loose bricks (finding “weak spots” in rivals’ strategies); (3) changing the terms of engagement (inventing “new rules” for the competitive dynamics of the industry); and (4) competing through collaboration (forming strategic alliances, both for gaining short-term advantage and long-term learning). Students are likely to be confused by this whole line of thinking by Prahalad and Hamel. They can easily understand the idea of playing a game, but may not realize that industry games don't have independent rule-makers. The organizations involved may attempt to evade the rules whenever they wish. The problem is that only the global leaders actually *do* change the rules successfully.

11. What are the many points of the authors' critique of Western management practices? What do you think of their critique?

Several Western practices lead to lower advantage levels. "Fast-tracking" of managers creates over-reliance on numbers for management, since managers rarely develop deep business knowledge and must therefore rely on numbers. Short-term assignments lead either to goals that fail to get commitment or to unrealistically short time frames. The familiar dichotomy between strategy formulation and implementation undermines competitiveness by fostering an elitist view of management. Managerial elitism is also fostered by the perpetuation of myths about managers and unwillingness to admit not having all the answers. Students who have been socialized in a business programme may have a hard time with these ideas. They want to believe that managers can "manage by the numbers." They may believe that short-term assignments are how one should get ahead. They may believe in the action orientation of short time frames. They may also aspire to being powerful managers who want to share in the mythology. They may not even believe that most managers *don't* have all the answers. Yet most experienced people would agree that the picture painted by the authors is in sharp focus.

12. What are the implications of "tapping the wisdom of the ant hill"? What do you think of this metaphor?

Students may not like this metaphor very much, but it is actually a pretty good one. Much research on ants (as well as termites and honeybees) has shown that relatively unintelligent individuals working together in a "hive" mentality will be able to accomplish remarkable things. Since people are much more intelligent than insects, the potential for "human hives" (or "colonies") is enormous. If many unintelligent individuals acting together can do so much, what could *intelligent* individuals do?

CHAPTER 4: ANALYZING STRATEGY

PORTER, "HOW COMPETITIVE FORCES SHAPE STRATEGY"

Summary of Reading

The essence of strategy formulation is coping with competition. Competition in an industry is rooted in its underlying economics. Competitive forces go well beyond established combatants, and include customers, suppliers, potential entrants, and substitute products. A strong set of competitive forces means poor long-run profitability prospects. The weaker the forces are collectively, the greater the opportunity for superior performance. The strategist's goal is to find a position in the industry where the company can best defend itself against these forces, or can influence them in its favour.

Contending forces

The seriousness of the *threat of entry* depends on the barriers present and the reaction from incumbent competitors. There are six major sources of barriers to entry: economies of scale, product differentiation, capital requirements, cost advantages independent of scale, access to distribution channels, and government policy. Aspirants must take at least four things into account with regard to potential retaliation from incumbents: have incumbents lashed out at entrants in the past? do incumbents possess substantial resources to fight back? do incumbents seem likely to cut prices? is industry growth slow? Actions by large segments of the industry, as well as other changing conditions, may affect entry barriers.

Powerful suppliers and buyers

Suppliers can exert bargaining power by raising prices or reducing quality. Buyers can force down prices, demand higher quality or more service, and play competitors off against each other. The degree of concentration of a *supplier* group, the uniqueness of its product, capacity to forward integrate, and the existence of switching costs all powerfully contribute to its bargaining power. The bargaining power of a *buyer* group is determined by the converses of many of the factors that determine supplier bargaining power. Thus buyer bargaining power increases to the extent that purchases in question are undifferentiated or insignificant, buyers possess the capacity to backward integrate, switching costs are low etc. The choice of suppliers and buyers should be viewed as a crucial strategic decision.

Substitute products

Substitutes limit the profit potential of an industry by placing a ceiling on prices. The more attractive the price-performance trade-off offered by substitutes, the firmer the lid. They also reduce the bonanza during boom times. The most important substitutes are those that are subject to trends improving their price/performance trade-off.

Jockeying for position (intra-industry rivalry)

The most common tactics used in situations of *rivalry* are price competition, product introduction, and advertising slugfests. Rivalry is intensified by the presence of such factors as numerous or roughly equivalent competitors, slow industry growth, lack of differentiation or switching costs (so buyers are not locked in), high fixed costs, etc. Companies can counter these things by strategic shifts like creating switching costs or differentiating the product.

Formulation of strategy

The strategist now has the tools to identify the strengths and weaknesses in the company's posture vis-à-vis the competitive forces. There are three types of choices: position the firm for its best defense against the forces; influence the balance among the competitive forces to improve the company's

position; anticipate shifts in the factors underlying the competitive forces and trying to exploit these change. “The key to growth, even survival, is to stake out a position that is less vulnerable to attack from head-to-head opponents, whether established or new, and less vulnerable to erosion from the direction of buyers, suppliers, and substitute goods. Establishing such a position can take many forms”

Discussion Questions

1. *How is it that “The essence of strategy formulation is coping with competition”?*

This question is intended to stimulate discussion. Some students will say that, of course, competition is the most pervasive of the things facing strategists. They will agree that the most important thing the strategy must address is the competition. Porter makes a convincing case. The problem that some students may identify is that this is a limited view of strategy. It is rooted almost entirely in the idea of strategy as position. Porter's model is a wonderful tool for understanding part of the firm's environment, but that's about it. It does the best job, of all available models, of addressing Rumelt's advantage test (discussed below). But it is not as good at the consonance test, and really doesn't address the feasibility and consistency tests. Yet the factors examined by these tests (environmental fit, company strengths and weaknesses, the existence of a central vision of strategy) are also part of the essence of strategy.

2. *How does the author define an industry?*

One of the problems with this reading is that Porter does *not* define industry, at least not explicitly. In some places he is quite vague. For example, he describes the producers of fiberglass insulation as an industry when he discusses substitutes like cellulose, rock wool and Styrofoam. Yet one could make a good case that all four of these products are in *one* industry, insulation. Any analyst using this model should first be explicit about the boundaries of the industry, remaining consistent with this choice throughout the analysis. Used this way, Porter's model is obviously very useful.

3. *The author discusses entry in a reverse way, by talking about barriers. How useful is this to strategic managers?*

This question is designed to stimulate discussion. Some students will have a difficult time visualizing entry as overcoming barriers. They will adopt the perspective of the incumbent firm that wants to know what its *specific rivals* are going to do. These students will be unimpressed by a discussion of barriers. But Porter's model is designed to give strategists insight into economic conditions in the *industry*. This is related to Andrews's comment that strategists must learn what are the underlying economic conditions in the firm's industry. Viewed from this perspective, analyzing barriers to entry in the industry is extremely useful. Strategists can take a systematic look at the role of economies of scale, product differentiation, capital requirements, cost disadvantages independent of scale, distribution channels, and government policy. Even if the strategist doesn't get a good prediction about the behaviour of a particular aspirant, doing this analysis would be of great benefit.

4. *How important do you think switching costs are?*

Switching costs seem trivial to most students. But they can be powerful shapers of competitive behaviour. High switching costs increase the power, relative to the industry, of a supplier group. This could lead to higher prices or lower quality for the industry. Low switching costs increase rivalry within the industry, because buyers are not locked in. This may result in price competition and advertising slugfests to lure customers away from rivals. Companies spend a lot of resources trying to create switching costs to prevent these things from happening. The point is, switching costs are much more important to competitive strategy than most students think.

5. *What is the price/performance trade-off?*

It is the comparison, on price and quality, of a product and its substitute. If the price of the product gets too high, the consumer may elect to purchase its substitute, as long as the quality of it is not too low relative to the product. Similarly, if the quality of the product declines, the consumer may purchase the substitute, as long as the price is reasonable. A related scenario occurs when the price of the substitute drops dramatically and its quality remains constant, suddenly making it a more attractive alternative. As Porter says, “Substitutes often come rapidly into play if some development . . . in their industries . . . causes price reduction or performance improvements.”

6. How important, and how common, are exit barriers?

Porter's discussion of exit barriers would indicate that they are both common and important. They include things like specialized assets, large investment in fixed assets, and management loyalty to a particular business. These are fairly common phenomena. One result of high exit barriers is excess capacity, which intensifies rivalry, primarily manifested by price wars (to keep fixed assets productive) and advertising battles (to unload excess inventory). Clearly these are important consequences of exit barriers.

7. The author says that strategy is “finding positions in the industry where [competitive] forces are weakest”. He also says that “The key to growth . . . is to stake out a position that is less vulnerable to attack . . .” So shouldn't his approach be called “avoiding competition”?

Porter never claims that his model helps firms engage in head-to-head competition. We tend to assume that competition is related to war or sports rivalry, which is characterized by head-to-head confrontation. Porter's model is actually closer to population ecology models, which say that organizations must adapt to the conditions extant in their environments. One of the best ways to do this is to find protected niches. This is similar to how animals in the wild make specialized adaptations to their locales, which ultimately result in species. The majority of competition in the world is of this “protect yourself, adapt to your local environment” kind. Porter's implicit point is that business is no different.

BARNEY, “LOOKING INSIDE FOR COMPETITIVE ADVANTAGE”

Summary of Reading

This reading draws heavily on the work of Michael Porter and Ken Andrews, both of whom have representative readings in Chapter 1 and 3, and whose work is also discussed in the Mintzberg and Lampel reading in Chapter 1. In the spirit of Andrews' SWOT framework, it marries Porter's positioning perspective (as a means of identifying and analyzing the nature of external opportunities and threats) to an internally-oriented focus on resources and capabilities (as a means of identifying and analyzing internal strengths and weaknesses). The author identifies four key criteria questions that this internally-oriented analysis must address: *value creation* (resources and capabilities are valuable only when they exploit opportunities or mitigate threats); *rareness* (capabilities or resources that are valuable but common will be essential in allowing a firm to achieve parity, but not to out-compete, its rivals); *imitability* (resources and capabilities that are valuable and rare will confer long-term advantage if rivals find it difficult to either duplicate or substitute for these resources and capabilities); finally, there is the question of *organization* (valuable, rare, and hard-to-imitate resources will confer superior long-term profitability depending on how well they are orchestrated into a coherent system; another way of thinking of this is the quality of complementary resources such as control systems and compensation policies, and the quality of fit between these and “core” resources and capabilities.)

Discussion Questions

1. Does the reading offer a coherent account of competitive advantage?

With its clear focus on creating value in hard-to-imitate ways, the “resource-based” view articulated by the reading clearly addresses competitive advantage. The recognition of the importance of coordination recognizes that to contribute meaningfully to advantage, any resource or capability can be evaluated in terms of its relative value, rarity and imitability, and cannot be managed in isolation. Thus, advantage can be explained in terms of maximizing the utilization of one or a few resources in the presence of such complementary resources as control systems (say where cost efficiencies are crucial) in ways that are hard to imitate; alternatively, advantage may be explained in terms of hard-to-imitate optimizing across a wide range of resources (say, where innovation is crucial and needs to draw on diverse stocks of knowledge). Thus this view of advantage coherently uses a limited number of concepts to explain a range of competitive situations.

2. *What does the author have to say about the imitability of strategy? How persuasive do you find his argument?*

Barney emphasizes that imitation is made difficult or even impossible due to firm-specific resources i.e., resources that cannot be bought and sold in well-functioning markets. Thus, the human resources of a firm, and in particular the body of expertise it can command, are likely to be a crucially hard-to-imitate resource. But more than this, Barney would argue that the resources that matter can vary across firms depending on the strategies that the pursue – success in the high end or low end of the market, for example, will often be associated with quite different kinds of expertise. Finally, Barney recognizes that a firm’s stock of resources is path dependent. For reasons of a firm’s experiences, relationships and managerial personalities, what it does tomorrow is a function of what it is doing. Thus, potential imitators face a significant degree of “lock-out” in trying to duplicate the target’s resource stock.

3. *Does the reading offer useful insights into how to deal with change?*

It can be argued that while the resource-based view recognizes how a firm changes over time in the sense that its stock of resources evolves as a function of experience and managerial personalities, it is limited in its ability to account for managed change. That is, the path-dependent characterization of a firm’s resource stock too readily invokes an argument of gradualism and complexity. This diminishes the role of managerial agency in guiding the evolution of the firm. It is not, therefore, an especially dynamic account of advantage and consequently is limited in its capacity to account for change in competitive position.

GHEMAWAT AND PISANO, “SUSTAINING SUPERIOR PERFORMANCE”

Summary of Reading

This reading builds on the previous Barney reading by emphasizing a value-creation orientation in understanding advantage, but adds the important emphasis of value capture i.e., the capacity of a firm to keep for itself in the form of profits a portion of the value it generates. This emphasis is added to the structural orientation of the previous Porter reading to devise a framework that explains long-term firm profitability in terms of four threats to value creation and capture by the firm (imitation, substitution, holdup, and slack). However, Ghemawat and Pisano share Barney’s emphasis (previous reading) on time lag as a fundamental source of advantage, which serves to distinguish them from Porter’s work i.e., each threat takes time to really hurt a firm, if at all, with the corollary that early moves are key to continuing success. Finally, the intensity of any given threat is directly related to the amount of value generated by the position the firm occupies: superior profits draw a crowd.

The threat of *imitation* essentially collapses Porter's "rivalry" and "threat of entry," and the authors are consistent with Porter in emphasizing this as the threat most typically present in manager's minds. *Substitution* threats are less direct, both in the sense that they tend to come from players off incumbents' "radar screens" (substitution is all the more powerful in undercutting incumbents' positions because it is so unanticipated), and offer are grounded on a novel value-creation-and capture proposition. Such novelty exploits a significant mis-match between a firm's strategy and market possibilities due to changes in technology, demand, &/or the availability and prices of inputs; in particular, cost-cutting technological change - offering more for less - can sweep away advantages built up by incumbents.

Imitation and substitution are fundamentally threats to the scarcity value of the firm's value proposition; hold-up and slack, on the other hand, fundamentally threaten the gains that accrue to a firm from such scarcity value by diverting such gains to players who are necessary to the firm but who are "non-owners." *Holdup* diverts gains to buyers, suppliers, or complementors; *slack*, on the other hand, doesn't just divert portions of value creation to other players, but reduces the amount of value available to begin with; through inefficiency and waste, value is dissipated. For a firm to be subject to slack requires past success (so that there is value to be dissipated), and improvement potential (so that it is falling short of the possible).

These threats are dynamic; no position is forever. The reading usefully supplements the Porter reading in Chapter 1 ("What is Strategy?"), and the Barney reading in this chapter by offering the opportunity to compare, contrast, and reconcile the activity-based (Porter) and resource-based (Barney) views of advantage. Thus, while both agree on what constitutes advantage (hard-to-imitate value creation), Barney explains it in terms of the resources (or, "stock variable") that firms deploy, whereas Porter explains it in terms of the systems of activities that firms perform (or, "flow variables"). Ghemawat and Pisano seek to integrate these perspectives. They argue that advantage is not to be explained solely in terms of a set of activities (Porter), nor even a set of activities contingent on a firm's stock of resources i.e. resource endowments (Barney). Rather, resource endowments act on activities via resource deployment *decisions* (or, resource commitments). Moreover, both activities and commitments feed back on endowments, tending either to deplete or augment them, which alters the extent to which endowments affect future commitments and activities and the opportunity set open to the firm. Thus neither management (Porter) nor history (Barney) can be said to be more significant in explaining long-term advantage.

Key to understanding the significance of resource commitments is their irreversibility. They are irreversible because of sunk costs (thus locking a firm into the decision, once made), opportunity costs (thus locking a firm out of the benefits of an alternative not taken, or taken too late), and time lags (results take time to come through but also continual investment, which demands perseverance in a long-term path of action once an initial choice has been made). Commitments can therefore be understood as turning points, and occasions for re-evaluation of the organization's entire strategy.

The significance of commitments to sustainability can be explained in terms of their impact on the four threats to sustainability that the authors identify. First, resources can be committed to pursue certain opportunities early, securing first-mover advantages that preserve value. Second, commitments can hobble a firm's ability to initiate or indeed respond to a substitutor's way of competing; alternatively, the nature of commitments implies that resources should be deployed in experimental fashion independently of the main activity set in order to anticipate substituting sets of activities. Third, commitments can constrain a firm to particular configuration of supplier-buyer- and complementor relationships; this can have the effect of blocking channel access to rivals but also cutting down a

firm's room to manoeuvre in re-negotiating value division. Finally, the authors recognize that internal organization is key to minimizing slack, but is not obviously connected to notions of irreversibility. We might observe, however, that understanding irreversibility has a reciprocal relation with configuration i.e., slack is likely due to complex cause-effect relations but multiple interdependencies make it difficult to do things differently. Therefore, irreversibility implies a "configuration mindset" if slack is to be minimized, and significantly reducing slack may require quantum change.

The authors conclude with an interpretation of the notion of organizational capabilities in terms of their framework. Capabilities, they argue, are complex organizational processes that are difficult to observe and learn and that take time to build (i.e. are cumulative). They are constituted by choices and actions that are individually frequent and unimportant but these many choices may flow from one big choice, i.e., commitment, such as developmental thrust, in certain new technologies and markets. Thus, the choice of which capabilities to develop may be lumpy, though their development may be incremental.

Discussion Questions

1. What do you think is the difference between commitment and investment?

Commitments are irreversible investments but not all investments are irreversible (e.g. investments in land or a stake in a publicly-traded company can be fairly easily unwound). Thus, lock-out effects can persist because of the difficulty of reacquiring discarded resources or recreating lapsed opportunities to deploy particular resources in particular ways.

2. Does commitment theory offer a coherent account of competitive advantage?

Commitments must pass the test of whether they lead to value creation and capture, and therefore clearly address the notion of advantage, commitments might destroy rather than create value. What effect a commitment has depends on how it alters the present and future impact on the firm of threats to sustainability. Thus advantage can be explained in terms of making investments that commit the firm to a course of action over several years, as a consequence of which the firm's stock of resources and activity set evolve in a particular direction. To the extent that this evolution supports superior value creation and capture, the commitment generates competitive advantage; if the commitments fail they can lead to persistently inferior performance.

3. Does the reading offer useful insights into how to deal with change?

A central argument of the reading is the notion of irreversibility. This implies that the scope for managerial discretion in a major (re)deployment of resources (i.e., commitment) deteriorates very rapidly as lock-in and lock-out begin to take effect. However, irreversibility need not preclude a degree of flexibility. That is, intensive attention in feedback will be important, especially in the early stages of a commitment, permitting timely revision in response to bad news. But irreversibility also implies the need for perseverance (albeit with some modifications) with a major change initiative, as results take a long time to come to fruition. Thus, the reading imparts a view of "lumpy" change, not unlike the quantum view of change briefly discussed in the Mintzberg and Lampel reading in Chapter 1.

HENDERSON, "COMPETITIVE MANOEUVERING"

Summary of Reading

Behaviour in business is not logical. The critical factor is one's emotional bias compared to the emotional bias of opponents. Competition is not impersonal, objective, or colourless. Victory is won in the mind of the competitor. Management must persuade an opponent to voluntarily stop short of maximum competitive effort. This persuasion depends on emotional and intuitive factors, not analysis or deduction. The negotiator should be as arbitrary as needed to get concessions, without destroying the

other's motivation for cooperation. Three common-sense rules for this are: make sure your rival knows what he'll gain if he cooperates or lose if he doesn't; don't arouse your rival's emotions; and convince your opponent that you are emotionally committed to your position and are completely convinced that it's reasonable.

It may seem strange to talk about cooperation with competitors. But it is rarely worthwhile to go all out in competition. It decreases stability of the overall market, and everyone loses. "Utter destruction of a competitor is almost never profitable unless the competitor is unwilling to accept peace." Better to come to implicit agreements that limit competition. If both sides persist in being arbitrary, negotiations will break down. Yet negotiators must be somewhat arbitrary, in a kind of brinkmanship. In these situations, deciding what to accept is arbitrary and emotional. The key is to convince your opponent that you are arbitrary and emotionally committed, while trying to discover what he'd accept in settlement. Your rival is most handicapped if he acts logically, because he will keep on making concessions until there is no more benefit to him.

The most easily recognized way of enforcing cooperation is to exhibit a willingness to use overwhelming force. But it's difficult to convince others that you mean it, without actually using it (which would be expensive and inconvenient). Besides, in business, overwhelming force is rarely available. Each party to a conflict can usually hurt the other. Therefore, the prospects for agreement depend on three things: each party's willingness to accept the risk of punishment (if you're not willing, and your opponents realize it, you'll almost certainly get either the punishment or worse conditions); each party's belief that the other party is willing to accept the risk of punishment (what counts is the judgement of probable use of capability); the degree of rationality in the behaviour of each party (the less of this you have, the greater the advantage, as long as you don't cross the line of emotionally arousing your opponent). Know as accurately as possible what your opponent has at stake; make sure your opponent knows as little as possible about what you have at stake; know the character, attitudes, motives, and habitual behaviour of your competitor; the more arbitrary you are, the better as long as you do not emotionally arouse your competitor; and the less arbitrary you seem, the more arbitrary you can in fact be.

The non-logical strategy

"The goal of strategy in business.... is to produce a stable relationship favourable to you with the consent of your competitors...Any competition which does not eventually eliminate a competitor requires his cooperation to stabilize the situation....There is a point in all situations of conflict where both parties gain more or lose less from peace than they can hope to gain from any foreseeable victory.... The participant who is coldly logical is at a great disadvantage.... The arbitrary or irrational competitor can demand far more than a reasonable share and yet his logical opponent can still gain by compromise rather than by breaking off the cooperation.... [But there is a limit to how arbitrary, etc., one can be, because these behaviours will trigger a like response.].... Thus, non-logical behaviour is self-limiting. This is why...diplomacy can be described as the ability to be unreasonable without arousing resentment."

Discussion Questions

1. *Henderson says that business behaviour is not logical, but is instead laced with emotional bias. What do you think of this?*

This question may stimulate very different points of view. Some people, particularly those with a logical, rational bent, will object to Henderson's view of things. They will argue that the best business decisions are the logical ones, where all factors are taken into account, where most things are planned and thought through, and where the optimum decisions are taken. Other students may identify with the

author's assertion. Many critics believe that business has become too analytical, and that the human side has been neglected. Henderson brings the human, emotional, side squarely to the forefront. There is little doubt that, even if we should make decisions logically (and that is not a given), we usually don't. This makes Henderson's point an important one.

2. The author says that one must be as arbitrary as possible without eliciting an emotional response from the opponent. What do you think of this approach to competitive behaviour?

Students may be able to understand this position, but most will find it difficult to implement it in their own behaviour. Most people realize that negotiation requires starting from a position that is unlikely to ever to be accepted by the other side. Henderson takes this a step further, saying that one must maintain this attitude throughout the negotiations, making sure never to go so far that one angers the other side. Obviously, this is a fine art, as the author implies (but never actually says) many times in the reading. But if you can pull it off, the outcome will be to your side of some completely fair result that might be identified.

3. What do you think of the author's discussion of "friendly competitors"?

Some students will have a hard time understanding this point, others will understand it but not accept it, and still others will do both. Henderson's point is basically that going all-out to destroy rivals is too expensive to be worth the effort, unless a particular rival is unwilling to play the game. In most cases, he argues, it is better to come to implicit agreements that put boundaries around the competition. Some students will not accept this, arguing that competition must be unfettered if we are to gain its benefits. If a rival isn't playing the game, that may be helpful to the consumer, because that firm may be driving down industry prices. Students who accept Henderson's view will argue that consumers may benefit from competition, but firms may not, and Henderson is writing for the managers of firms. They will point out that it is very realistic to expect managers to want to limit competition in order to support the longevity of the firm. Both Mintzberg and Porter mentioned, in earlier chapters, the strong incentive management has to avoid competition. Those authors suggested economic approaches; Henderson is merely supplementing that with a political approach.

4. Henderson says that threatening to use overwhelming force is not a good tactic in business because it is rarely available. What do you think?

Henderson alludes several times to the analogy of international war, and deterrent strategy. But in this passage he quite rightly points out that, like all analogies, this one has a limit. Unlike the arena of international superpower politics, in business there is no arsenal of nuclear weapons. There may be examples in some industries of firms which have very large advantages over smaller firms (e.g., IBM in computers). But, in general, there are few knockout punches available to most firms, even the large ones, in most industries.

5. The author says that if you're not willing to accept punishment, and your opponents know it, you'll almost certainly get punished. What do you think of this assertion?

Henderson is saying that playing the game well implies the risk of sustaining some damage. If you are willing to accept some injury, you will be recognized as someone who will retaliate if attacked. Hence, willingness to accept punishment becomes a deterrent. Conversely, if you are not willing to go to the mat with opponents, they will sense this and make you pay dearly. A second-best approach is to hide your unwillingness to be punished extremely well, so that your opponents will still be deterred. This is an aggressive reading. Some students will be angered by this kind of talk. For these people, it is interesting to see their reaction when exposed to this kind of real-world, rough-and-tumble attitude. Some students will respond well to it.

6. *The author repeatedly makes the point that the non-logical competitor has an advantage over the logical one. How is this possible?*

As Mintzberg points out in the chapter introduction, this reading fits neatly into the “strategy as ploy” concept. Henderson calls the emotional competitor non-logical but in fact that individual may be viewed as crazy. His point is that the unemotional competitor will want to keep his distance. The logical opponent will do this, according to Henderson, by adopting a bargaining stance that makes many concessions to the less logical opponent, as long as logical payoffs are still possible. In other words, long after an emotional opponent would have angrily said, “That's it! I'm not giving you another thing!” the logical opponent will still be making concessions. Many students will question this stance, with some justification. There is nothing in the research literature to suggest that logical negotiators necessarily fall into the traps set by their more emotional opponents. A very good logical negotiator may be able to see through these ploys.

7. What is your opinion on the author's point that “non-logical behaviour is self-limiting”?

This is a point well-taken, one that should actually have more weight in his reading. He argues that if you go too far with your non-logical behaviour, it will become counter-productive. There will be a backlash against you by your opponent. One of the unspoken but critically important elements of Henderson's thesis is that knowing when to stop short of that point is a fine art that must be mastered. Henderson may have some good advice here, but he offers no guidance on how to carry it out, short of trying it and learning from experience.

8. *Henderson says, "The less arbitrary you seem, the more arbitrary you can in fact be." How is this possible?*

This is merely the other side of the coin of being as arbitrary as possible without eliciting an emotional response from the opponent. Here Henderson is saying that if you seem like a nice, reasonable person, you will get away with more arbitrariness than someone else would. This is a good thing, as he argued earlier in the reading, because it will tend to keep the outcome of the negotiations closer to your desired position than to your opponent's.

MINTZBERG, “GENERIC BUSINESS STRATEGIES”

Summary of Reading

This article seeks to outline in an orderly fashion the families of strategies widely represented in organizations, divided into five categories:

- Locating the core business
- Distinguishing the core business
- Elaborating the core business
- Extending the core business
- Reconceiving the core business

Locating the core business

Strategies of stage of operations:

Upstream business strategy: functions close to raw material (e.g., mining, basic material processing)

Midstream business strategy: takes a variety of inputs, gives out a variety of outputs (e.g., canoe manufacturing)

Downstream business strategy: takes in and sells a wide variety of inputs (e.g., department store)

Strategies of industry: trying to find the commonality among a group of firms called an industry (SIC coding)

Distinguishing the core business

Functional areas:

- Input sourcing strategies (procurement, recruitment, financing)
- Throughput processing strategies (process development, fabrication, assembly, product research, product development)
- Output delivery strategies (distribution, promotion, pricing, sales, service)
- Supporting strategies (legal, control, training, MIS)
- Value chain

Primary activities:

- Inbound logistics
- Operations
- Outbound logistics
- Marketing and sales
- Service

Support activities:

- Procurement
- Technology development
- Human resource management
- Firm infrastructure

Porter's generic strategies: firms that wish to gain competitive advantage must make a choice from among these—"being 'all things to all people' is a recipe for strategic mediocrity and

below-average performance....A firm that engages in each generic strategy but fails to achieve any of them is stuck in the middle.” Generic strategies include:

cost leadership (broad competitive scope, competitive advantage sought through lower cost)

differentiation (broad competitive scope, competitive advantage sought through differentiation)

cost focus (narrow competitive scope, competitive advantage sought through lower cost)

differentiation focus (narrow competitive scope, competitive advantage sought through differentiation)

Strategies of differentiation: acting to distinguish one's products or services from others'.

- Price differentiation strategy (having a lower price)
- Image differentiation strategy (create a distinctive perception of the product)
- Support differentiation strategy (having better sales, service, or related products)
- Quality differentiation strategy (making the product better)
- Design differentiation strategy (offering something that is truly different)

Undifferentiation strategy: “To have no basis for differentiation is a strategy too, indeed by all observation a common one, and in fact one that may be pursued deliberately.”

Scope strategies: distinguishing the extent of one's products and services

Unsegmentation strategies: “one size fits all”

Segmentation strategies: virtually limitless possibilities

Niche strategies: focus on a single segment

Customizing strategies: each customer is a unique segment

Elaborating the core business

Given a core business with a distinguished competitive posture, what generic strategies are available to extend that core business?

Penetration strategies: using existing products in existing markets to get more share

Market development strategies: promoting existing products in new markets

Geographic expansion strategies

Discussion Questions

1. *How useful, for locating a business, is the framework given by the author? Would you add anything?*

The answer to this question depends on what you mean by locating. Mintzberg's scheme tries to show where a business is in the chain of production. Is the business upstream (early in the production of the products in question), midstream (takes in lots of inputs, throws off lots of outputs), or downstream (many products sold in one distribution mode)? He also discusses the notion of identification of industries (e.g., Standard Industrial Classification codes).

The framework assumes that "locating" a business means identifying the spot in the production chain to which it belongs, or the industry to which it belongs. This is a very content-oriented sense of the word identifying. But identifying could also mean figuring out which general approach a firm is following, regardless of where it is in the production chain. Used this way, Porter's generic strategies can be used to "locate" a firm, i.e., which strategy is it using compared to other firms in the industry? This is related to the notion of strategy as position, from Chapter 1.

2. *What is the basic concept behind Porter's value chain?*

The value chain breaks down all the activities performed by a firm, and how those activities interact. He distinguishes between primary value activities and support value activities. Primary activities involve "the physical creation of the product and its sale and transfer to the buyer as well as after-sale assistance." Support activities provide "purchased inputs, technology, human resources, and various firm-wide functions."

Each activity (and each interaction) is examined to show how it adds value for the firm's buyers. The point of value-chain analysis is to increase the firm's profit margin. Porter defines margin as "the difference between total value and the collective cost of performing the value activities."

3. *What are the four generic strategies proposed by Porter?*

Porter's four strategies are based on two factors. The first is the source of competitive advantage which is being sought; this could be either lower cost or differentiation. The second factor is the desired competitive scope of the firm; this could be either broad or narrow.

Firms with broad competitive scope who base their sought-after advantage on lower cost follow a strategy of *cost leadership*. Broad-scope firms with an emphasis on differentiating themselves are using *differentiation*. Narrow-target firms seeking lower cost are using *cost focus*; similar firms relying on differentiating themselves follow the strategy of *differentiation focus*.

4. *Mintzberg places the value chain and Porter's generic strategies in the category of "distinguishing the business." What do you think of this?*

This question is intended to stimulate discussion. It is akin to question 1, designed to make students think about the terms Mintzberg is using to describe his five categories of generic strategy.

Firms which follow value-adding strategies, or which follow one of Porter's four generic strategies will, if they succeed in operationalizing the strategy, distinguish their business. But this framework could also be used to locate the business (in the sense of an outside observer's identifying the firm's approach).

All of this is related to the notion of strategy as position, from Chapter 1. Porter's framework could be used to characterize the approaches used by all the various firms in an industry, in a sense "locating" them. From the standpoint of the firm, the particular approach it used would distinguish it from other firms.

5. *The author says that cost leadership is merely a form of differentiation. What is your opinion?*

This question is designed to stimulate discussion. Some students will argue that cost leadership is not a form of differentiation because firms that follow this approach tend to have plain-vanilla products. They succeed with this strategy because their costs are so low that they can still make a profit.

Other students will agree with Mintzberg. He argues that the point of competitive strategy is to seize competitive advantage, and that can only be operationalized in the marketplace. In the case of a cost leader, that would be operationalized as low price. This low price would distinguish (i.e., differentiate) the firm from its competitors. Hence, cost leadership must translate into price leadership, which is a form of differentiation.

6. *Mintzberg says, "To have no basis for differentiation is a strategy too, indeed by all observation a common one, and in fact one that may be pursued deliberately." What is your opinion of this assertion?*

This question is intended to stimulate discussion. Mintzberg's assertion may strike some as being heretical. Most marketing texts, for example, strongly urge firms to distinguish their products and themselves. Students who buy into this thinking will be mildly outraged by the statement in the question.

Mintzberg is pointing out that when one looks at the realized strategy of firms, there are many which are undistinguished. So, any complete listing of generic strategies would be incomplete without including the undifferentiation strategy. Furthermore, some firms may deliberately follow such a strategy, because there is enough demand in the market for them to get away with it, or because their managements are not skilful or energetic enough to distinguish the firm, or both.

MINTZBERG, “A GUIDE TO STRATEGIC POSITIONING”

Summary of Reading

This is a highly visual review of a perspective on strategy that itself relies on a highly visual metaphor; the notion of “positioning” a firm in some business space, by an author most of whose work is antipathetic to the perspective. The reading is constructed around a model that is a “metaphor of sorts, consisting of a *launching device*, representing an organization, that sends *projectiles*, namely products and services, at a *landscape of targets*, meaning markets, faced with *rivals*, or competition, in the hope of attaining *fit*.”

The launching device (organization)

In the positioning school, the organization is viewed as a series of business functions (Porter’s “value chain”). Products are pushed through this system: given sufficient lift into the market (i.e. commercial potential), they are given their final “boost” by sales, marketing and distribution. The business functions are executed using a set of competencies, some core some not, with non-core competencies out-sourced. Competencies are combined to achieve synergy.

The projectile (products and services)

Porter’s generic strategies describe the ways a product can be launched at a target market: differentiation, cost leader, or focus strategies. Based on his own earlier work, the author adapts these to describe a wide range of generic strategies. There are those strategies that characterize the product (e.g., price or image differentiation), and those that elaborate or extend the product range (e.g., penetration or diversification).

The target (markets)

Markets are described in generic terms: size and divisibility (e.g., mass, thin), location (local, national, global), and stage of evolution or change (e.g., emerging, erupting). In addressing the issue of industry definition - where does one market end and another begin? The author notes that the job of economists is to identify industries but the job of strategists is to destroy them. Industry definition is an important aspect of the positioning perspective; thus there are concepts like barriers to entry (“blockages in the terrain”), barriers to mobility (lesser blockages i.e. those separating strategic groups).

The fit (strategic positions)

This is “how the product sits in the market”: the match between the breadth of the products offered and markets served (Porter’s “scope”) e.g., commodity, niche, and the quality of fit (“sustainability”). This second dimension of fit is either natural (“inherently sustainable”), or forced (“vulnerable”). Fit will typically be imperfect, and will therefore need either reinforcing or isolating mechanisms. There are four such mechanisms: burrowing strategy (increased market penetration), packing strategy (adding supporting elements), fortifying strategy (building up barriers), and a learning strategy (improve fit through adaptability). Finally there can be misfit, a concept that “has not been much developed in the literature” (e.g., competency misfit, myopia, wrong design).

Rivalry

“So far, almost all of these relationships have been between a single seller and one or more target markets. But sellers are no more found alone than are buyers.” Noting again the deep roots in economics that this perspective has, Mintzberg draws on that discipline to describe various competitive situations e.g., duopoly, multipoint competition, unstable competition in a mature market. But the perspective also owes a debt to the literature on military strategy: because markets are contestable, we

have such phenomena as first and second movers; there are frontal attacks (concentration of forces), guerilla attacks (e.g., sudden deep discounting), and market signaling by feint. And, of course, there is also the possibility of negotiated settlement, or cartel.

Discussion Questions

1. *What does the author mean when he says “There is woefully little synthesis in the world of analysis!”*

The significance of synthesis to strategy-making is a recurrent theme in Mintzberg’s work (“strategy formation,” emergent strategy”). He introduces it here to underline the need for a “glossary” of the key concepts in the strategic positioning perspective of strategy-making. However, his more general argument, touched upon in the closing paragraph to the reading, is that a novel strategy is a creative process (of synthesis); the strategic positioning perspective encourages the use of formal techniques (analysis) for strategy-making. Thus the “world of analysis” needs synthesis on two levels in its conception of strategy-making, to bring order to the perspective, and to add more realism to it.

2. *What can the value chain and generic strategies achieve for a firm?*

Together, these serve to distinguish the business. The value chain describes those activities by which a firm adds value in terms of primary activities (inbound and outbound logistics, operations, marketing and sales, service) and support activities (procurement, R&D, human resource management, firm infrastructure). These are organized and executed (whether internally or outsourced) with a particular target market in mind; in Porter’s terms a firm must choose the target in terms of scope (broad or narrow) and the basis of competing (cost or differentiation); together these yield a particular generic strategy (cost leader, differentiation, focus). Mintzberg views the choice as being between generic strategies in terms of those that characterize the product, and those that elaborate or extend it. Such choices determine whether the product fits the market in a distinctive way.

3. *“Economists spend a lot of time worrying about identifying industries....they often no sooner find one than a strategist destroys it.” What do you think?*

Students may find it difficult to come up with examples of industries that have been destroyed; some well-worn ones are the horse-buggy and ice-block (as a means of refrigeration) industries. But in both cases the markets, in terms of needs served, were not destroyed; rather, other “projectiles” that achieved a superior fit were developed. Whether an industry is “destroyed” or not depends on the means you use to define it; if defined in terms of given inputs and outputs (the basis for SIC codes) then these two industries were indeed destroyed. Elsewhere in the text and cases there are examples of industry convergence (e.g., the Sony case), or of redefinition (e.g., the Pascale reading, Chapter 5). A novel strategy works to destroy existing ways of competing, and, as Mintzberg notes, defies (ex-ante) categorization, hence the instability of the economist’s industry definitions and the limitations of analysis.

CHAPTER 5: STRATEGY FORMATION

MINTZBERG, "CRAFTING STRATEGY"

Summary of Reading

Planning strategy brings to mind orderly, analytic thinking. But the metaphor of *crafting* strategy evokes traditional skill, dedication, and perfection through mastery of detail. Instead of thinking and reason, what springs to mind are involvement, intimacy and harmony with the materials, long experience and commitment. The thesis of the reading is that "the crafting image better captures the process by which effective strategies come to be. The planning image, long popular in the literature, distorts these processes and thereby misguides organizations that embrace it unreservedly." The reading compares strategists to potters. Managers are craftsmen and strategy is their clay. Like potters, they sit between a past (of corporate capabilities) and a future (of market opportunities), and they should bring to their work an equally intimate knowledge of the materials at hand.

Strategy: Deliberate and Emergent

People tend to define strategy as planning, but they describe a firm's strategy as consistency in past behaviour. These patterns in action are not difficult to find in organizations. But it is often difficult to find statements of intention that we can trust. We need to go back to the intimate connection between thought and action. Most things written about strategy say that first we formulate, then we implement; first we think then we act. But a potter will get ideas about different objects after she starts working, perhaps because of slight problems or other events that happen, even if she had some different initial idea. Action has driven thinking. The same thing may happen in a company. Salespeople will learn things from customers, which lead to product changes, which may lead to whole new strategic thrusts. The point is that strategies can *form* as well as *be formulated*. "A realized strategy can emerge in response to an evolving situation, or it can be brought about deliberately, through a process of formulation followed by implementation." While it may be true that organizations could formulate smarter strategies, it is also true that organizations could be smarter by "allowing their strategies to develop gradually, through the organization's actions and experiences. Smart strategists appreciate that they cannot always be smart enough to think through everything in advance." Strategies are both plans for the future and patterns from the past.

Craftsmen don't think one day and work others. Yet organizations try to separate the work of minds and hands, severing the feedback link between the two. "The notion that strategy is something that should happen way up there, far removed from the details of running an organization on a daily basis, is one of the great fallacies of conventional strategic management." Strategies that appear without clear intentions are called *emergent*. Emergent strategy fosters learning; deliberate strategy tends to preclude it. But strategy-making uses both approaches. Learning must be coupled with control. Deliberate and emergent strategies form the ends of a continuum along which real-world strategies may be found. Some strategies are *personal strategies* of talented individuals in firms. In the grass-roots approach, strategies grow like weeds in a garden, taking root anywhere where people have the capacity and resources to learn. With *umbrella strategy*, management sets broad guidelines and leaves the specifics to others. In the *process strategy*, management controls strategic processes and leaves actual content to others. Each of these approaches is *deliberately emergent*.

Strategic reorientations happen in brief, quantum leaps.

The conventional view of strategy claims that change must be continuous, which is ironic, since the essence of strategy is *stability*—to set direction, to lay out actions, to elicit commitment from members. "No stability means no strategy.... Indeed, the very fact of having a strategy ... creates resistance to

change!” Reconciling the forces for stability and for change is a fundamental dilemma for strategy-making. Research indicates that it is resolved by having long periods of stability punctuated by brief (and rare) periods of significant change. Success is achieved as the firm exploits its strategy during the long periods of stability. As the firm gradually moves out of synch with its environment, it must go through a strategic revolution, which is followed by another long stable period. Research shows that this pattern is particularly applicable to large firms. Smaller, more creative times have shorter stable periods and more frequent changes. In either kind of firm, success seems related to attending first to one force, then to the other. Failure seems related to either mixing the two, or focusing too much on one or the other.

To manage strategy, then, is to craft thought and action, control and learning, stability and change.

The popular view is the strategist as planner or visionary. The view offered here is of the strategist as a pattern recognizer or learner, one who manages a process in which strategies can emerge as well as be deliberately conceived. The strategist may also be the "collective entity made up of the many actors whose interplay speaks an organization's mind." The words associated with craft are “dedication, experience, involvement with the material, the personal touch, mastery of detail, a sense of harmony and integration.” Managers who craft strategy are “involved, responsive to their materials, learning about their organizations and industries through personal touch, . . . [and] sensitive to experience . . .” Managing strategy is mostly managing stability, not change. It is making the firm as effective as possible at existing strategy. It is not promoting change, but knowing when to do so. Strategic planning is "a means; not to create strategy, but to program a strategy already created.... It is analytic (i.e., based on decomposition), while strategy creation is synthetic (i.e., based on putting pieces together). It typically leads to extrapolating existing strategy or copying from competitors.” Planning can, though, play a useful role.

The real challenge in crafting strategy lies in detecting discontinuities that are important to the firm's future. There are no techniques for doing this, only “a sharp mind in touch with the situation.” This sharpness tends to atrophy during the long periods of stability mentioned above. So the effective strategist must be able to manage during the stable periods, yet detect discontinuities. The knowledge needed for strategic management is not intellectual, but personal. It means having an intimate understanding, equivalent to the craftsman's feel for the clay. The author calls it wisdom, which is not promoted in modern bureaucracies because leaders are distanced from details. Craftsmen and managers must train themselves to see things others miss.

A key to managing strategy is detecting emerging patterns and helping them take shape. Don't just preconceive strategies, but recognize their emergence elsewhere, and intervene when appropriate. Create a climate where a variety of strategies can grow. Keep the quantum theory in mind. Learn to sense when to exploit an established crop of strategies, and when to encourage new strains to displace the old. “While strategy is a word that is usually associated with the future, its link to the past is no less central. As Kierkegaard once observed, life is lived forward but understood backward. Managers may have to live strategy in the future, but they must understand it through the past. Like potters at the wheel, organizations must make sense of the past if they hope to manage the future. Only by coming to understand the patterns that form in their own behaviour do they get to know their capabilities and their potential. Thus crafting strategy, like managing craft, requires a natural synthesis of the future, present, and past.”

Discussion Questions

1. The author says that “the crafting image better captures the process by which effective strategies come to be.” What is your opinion of this assertion?

This question is intended to stimulate discussion. Some students will balk at this statement. They will not understand the analogy, or they will prefer not to accept it. So much of business education is oriented toward analytical techniques; some students simply want to believe that the techniques extend to strategy formulation. Other students will welcome the different metaphor. As Mintzberg describes it, crafting has many desirable aspects—involvement, intimacy and harmony with materials, long experience, and commitment. Other words he describes as associated with craft are dedication, experience, involvement with the material, the personal touch, mastery of detail, a sense of harmony and integration. This is also related to Peters and Waterman's notions of “hands on, value driven” management.

2. How does this reading relate to previous readings?

This reading is closely related to Mintzberg's Chapter 1 reading, “The Five Ps of Strategy”, which actually elaborates on the continuum of strategies mentioned here. There are also elements of the reading that relate to Quinn's model of logical incrementalism.

3. The author points out that most writing on strategy says that first we formulate, then we implement; first we think, then we act. Then he rhetorically asks, “Why would anybody want to proceed differently?” How do you answer this question?

This question is intended to stimulate discussion. Some students will ask, “Why, indeed?” They will agree with the traditional model that for coherent strategy to occur it must be thought through first. Others will answer that there are other ways to proceed. Lots of times people act and get ideas, good ideas, from their actions. In other words, they learn. This happens for potters and other craftsmen. Why shouldn't it also happen for strategists?

4. Mintzberg says that "smart strategists appreciate that they cannot always be smart enough to think through everything in advance." What is your opinion of this? How does this relate to other readings?

Students may differ on this. Some will think that the strategists who work for large corporations should have the resources available to them to successfully think through everything in advance. Others may not be so sure, and will agree with Mintzberg's assertion. This point is very closely related to the reading on logical incrementalism. Quinn and Voyer argue that one of the reasons why logical incrementalism is the preferred approach for developing strategy is because of the impossibility of identifying all factors in advance, not to mention the difficulty of trying to deal with all the factors simultaneously.

5. What is your opinion of the author's discussion of the severing of the link between thought and action? To what other readings is it related?

How students react to Mintzberg's discussion should differ. Those who strongly believe in the value of analysis will disagree with him. They will argue that good analysis is needed in large organizations. That may be true. The problem to which Mintzberg alludes is when this attitude is taken too far. People in general need to be able to act, and then think about their actions. They also need to be allowed to think, and then act on their thoughts. Just thinking, or just acting, is not enough: managers need to be involved in the operating details.

6. Mintzberg asserts that deliberate strategy tends to preclude learning. What is your opinion of this statement?

This question is intended to stimulate discussion. Some students will argue that there is nothing about good strategic planning processes that precludes learning. Indeed, they will say, good planning processes are set up to monitor the environment, constantly facilitating learning about it. But Mintzberg's point is that *deliberate* strategy, by definition, means going from intention to realization with *little or no deviation*. In other words, a deliberate strategy fulfils the plan, no matter what new information is gained along the way. So, a purely deliberate strategy *would* preclude learning.

7. The author says that the essence of strategy is stability, and that "The very fact of having a strategy . . . creates resistance to change!" What is your reaction to these ideas?

Some students may disagree, saying that good planning processes make for adaptability. The statement may confuse others; it implies that there is a downside to strategy, and most students think of strategy as a good thing. Still others may buy into this statement. The evidence seems to indicate that strategies do create stability and resistance to change. But these are not bad things, especially during those long periods of strategic stability. As Mintzberg points out, those are the times when the firm usually has the most success.

8. *What is your reaction to Mintzberg's description of the typical strategy cycle, i.e., long stable periods punctuated by brief, quantum leaps?*

Students may wonder why firms can't do things differently. Why do they wait so long, until they are out of synch with their environments, before they make changes? The main reason is that frequent change would be too expensive, monetarily and in human terms. Firms find it more lucrative to live with a slightly-out-of-alignment strategy for a while than to change frequently. Another point that should be raised is that smaller, more creative firms have shorter stable periods and more frequent changes. There is a movement toward making even large firms more like these small firms. This is the "thriving on chaos" idea popularized by Tom Peters.

9. *Which view of the strategist do you prefer—the strategist as planner/visionary, or the strategist as a pattern recognizer/learner?*

Students may be disappointed that Mintzberg implies that the planner/visionary is not accurate. On the other hand, the description of the "craft" manager is a compelling one; managers who craft strategy are "involved, responsive to their materials, learning about their organizations and industries through personal touch, ... [and] sensitive to experience..." They are also characterized by "dedication, experience, involvement with the material. The personal touch, mastery of detail, a sense of harmony and integration."

10. *What is the "analysis vs. synthesis" distinction between strategy planning and strategy creation?*

Analysis means taking something and breaking it down into its components. Strategic planning excels at this. The problem is management consists of taking a variety of "pieces" and trying to figure out how they might fit together. Putting many things together in a holistic way is called synthesis. It is what management is all about, and planning is its antithesis.

11. *What is your opinion of the five "management pointers" the author gives at the end of the reading?*

Of course, students will have a range of opinions on these. "Managing stability" will seem pretty strange to students, who may have come into this reading thinking of strategic management as change-oriented. Some may not find the "detect discontinuity" advice particularly helpful—the author says that "there are no techniques for doing this." They may, on the other hand, agree with the idea that managers should know the business. "Managing patterns" is another way of saying that firms need to become more flexible and innovative, and most students probably favour this. Lastly, "reconciling change and continuity" will probably still seem strange to students who wonder why firms wait so long before changing strategies.

EISENHARDT, "STRATEGY AS STRATEGIC DECISION-MAKING"

Summary of Reading

This reading emphasizes the transitory nature of competitive advantage. It focuses on the implication for strategy-making of rapidly changing markets (or, "high velocity markets"). In such an environment, strategy is about creating a continuing flow of temporary and shifting competitive advantages, as dynamic rivals relatively quickly undermine any given advantage. The ability to make fast, widely-supported, and high quality strategic decisions is crucial, and depends on strategic decision makers being able to *build collective intuition*, *stimulate quick conflict*, *maintain a fast pace*, and *defuse politics*. Each of these factors can be addressed in a fact/fiction dichotomy similar to the Mintzberg reading in Chapter 2.

Building Collective Intuition

Fiction: In high-velocity markets, there is no time for formal meetings, no place for extensive information processing, and decisions are best made on the fly.

Fact: The most effective strategy-making teams will base decision-making on patterned processing, whereby information is processed in patterns or blocks rather than processing piece by piece. Crucial to generating this kind of processing are regular "don't miss" meetings characterized by intense interaction by the managerial team around extensive real-time information on internal and external operations.

Stimulating Quick Conflict

Fiction: Avoid conflict, because it bogs down decision-making; rather it is necessary to move quickly to a few alternatives, analyze the best ones, and make a quick choice.

Fact: Embrace conflict, because divergent views among well-informed managers are inevitable in high-velocity markets. Conflict brings these divergences to the surface and therefore raises the quality of into decision-making inputs. Therefore, accelerate conflict by having a team with diverse backgrounds, and those functions using "frame-breaking" tactics (e.g. scenario planning, devil's advocate) such as rapidly to generate alternatives to points of view that members raise. The generation and quick processing of multiple alternatives builds confidence that all-important alternatives have been considered, which will be crucial to giving managers the confidence to act quickly.

Maintaining the Pace

Fiction: managers confront a dilemma of speed i.e. every strategic decision is unique, requires its own analytical approach, and unfolds in its won way, and yet the market demands quick decision-making.

Fact: breaking this dilemma by focusing on maintaining the overall pace of decisions i.e. launch the decision-making process promptly, keep up energy levels, and skillfully cut off debate through the two norms of "consensus with qualification" and that decision-making rhythm must be maintained above all else.

Defusing Politics

Fiction: Politicking is inevitable because strategic decision-making involves high stakes that make inevitable lobbying, information manipulation, and coalition building.

Fact: Politicking degrades decision inputs and wastes time. It must be defused, by creating common goals, having a balanced power structure, and encouraging humorous exchanges between the team.

Discussion Questions

1. Do you think what the author she has to say about strategic decision-making is generally true of strategy-making?

The author develops her characterization of strategic decision-making with “high velocity” markets in mind, based on research in, for example, the computing industry. However, there are similarities between her characterization and, say, that developed by Mintzberg in Chapter 2. Both emphasize time as a crucial variable in the quality of information, emphasize the value of scheduling, are skeptical of the value of the value (for strategic decision-making) of accounting (Eisenhardt) or MIS (Mintzberg) information. Both are skeptical of the quality of strategic action that is possible based on in-depth analysis and prediction. And both emphasize how managers as crucial to quality strategic decision-making process information. Furthermore, pace is an important, and increasingly important, criterion of success across many industries. Thus, we can say that the reading has much that is relevant to management in a wide range of industries.

2. The reading argues that you can schedule the beginning and end of a creative act like strategic decision-making. What do you think of this?

One way to approach answering this is to think of the alternative, and how unattractive it is, as indicated by the “fiction” points that the summary lists above. Students should also be challenged to put themselves in the shoes of decision-makers – faced with many ideas and arguments from those involved in strategy-making. One very significant aspect of everyone knowing that strategic initiatives will be addressed on a regular basis, beginning and ending at certain specified dates in the future, is that people will be more likely to compromise (in the belief that something they favour will get addressed the next time around) and also less likely to push for major changes during implementation because such changes can be incorporated in a subsequent new initiative. Finally, setting the format of strategic decision-making narrows the scope of uncertainty while leaving wide open the content of the initiative, therefore striking a balance between free thinking and discipline.

3. Suppose a company has a pattern of strategic decision-making just like what the reading advises. Suddenly, a competitor totally surprises. Would a crash response and change in rhythm be the right way to respond?

This question is intended to push students to think of coping with irregularity (the “surprise”) through exploiting regularity (the process of decision-making). A crash response risks over-burdening the strategic-decision system, pulling people from a focus on initiatives already being worked on, disrupting those initiatives and harming the quality of attention that these same people can devote to the new initiative – the “crash response”. It also means veering to “deciding on the fly”, and could undermine the established decision system by setting a precedent for how to deal with competitor surprises - which indeed constitute much of the velocity in high velocity industries. Rather, it will likely be wiser for the company to strive to maintain its rhythm – it may not be first against this competitor this time, but by having its own focused rhythm it can hope to do well every time, and part of that may involve accepting not being first every time. Twin out win this time. On the other hand, it can be argued that a competitor surprise may be less likely to happen to a rhythm setter to begin with, and that the firm with the high quality decision system the reading describes will tend to be on top of market trends first.

Summary of Reading

“Strategy” seems like an innocent noun, but in fact it embodies an implicit model of how organizations should be managed, i.e., by top management, with empirical models and concepts, using strategic planning processes. Words often derive meaning from their cultural context, and that is true for strategy. The Japanese are interested in the concept not for itself, but to learn about our peculiarities. They distrust single-minded approaches that detract from peripheral vision. American companies in mature industries, who were wedded to the portfolio concept (like *Baldwin*, *Textron*, and *AMF*), were outflanked by Japanese competitors (like *Yamaha*, *YKK*, and *Honda*).

Honda: the Strategy Model

From 1959 to 1966, *Honda* went from 0% to 63% of the American motorcycle market. What accounted for this phenomenal success? The Boston Consulting Group's (BOG) 1975 report to the British government became the standard "strategy model" explanation for what happened. *Honda* is portrayed as a firm dedicated to being the low price producer (by utilizing its dominant share of the Japanese market to build volume), using that dominant domestic position to force entry into the U.S. market, expanding that market by redefining motorcycle users into a leisure class (using the "Nicest People" advertising campaign), and exploiting its advantage via aggressive pricing and advertising.

Honda: the Organizational Process Perspective

The explanation given by the six *Honda* executives responsible for the company's entry differs from that of BCG. Mr. Sochiro *Honda*, the company founder, was an inventive genius who secured the firm's industry leadership with brilliant design innovations (not volume production). By the end of 1959, *Honda* became the market leader in Japan because of the 50cc Supercub, which was well-designed and affordable because of its lightweight engine. Demand was so great that the company invested in a new 30,000-unit-per-month factory (which not completed until mid-1960). In late 1958 the company sent two executives to investigate the American market. They found some discouraging things: substandard dealers, poor inventory, motorcycles sold on consignment, consumer financing provided by retailers, and poor after-sales service. On the other hand, there were 450,000 motorcycle registrations every year, and 60,000 motorcycles were imported from Europe each year. The *Honda* people thought it was reasonable to shoot for 10% of this import market.

Other than that, “In truth, we had no strategy other than the idea of seeing if we could sell something in the United States,” said one executive.

After getting a grudging currency allocation from the Japanese government, *Honda* rented a run-down warehouse in Los Angeles in July 1959. The three executives they sent shared an \$80 per month furnished apartment, with two sleeping on the floor. They stacked the crates and swept the floors themselves. By spring of 1960, they had forty dealers, who mostly sold the larger 250cc and 305cc bikes. The *Honda* people did not push the small, 50cc Supercubs; instead, they used them for transportation around Los Angeles. In April, disaster struck when the large bikes developed oil leaks. While the engineers back in Japan tried to solve the problem, a *Sears* buyer called about the Supercubs. Realizing they had no choice, they decided to let the small bikes go. They were phenomenally successful. The “Nicest People” campaign was the result, in the author's words, of “an inadvertent sequence of events.” It was conceived in the spring of 1963 by a junior advertising major at UCLA as part of a course requirement. He sold the idea to an advertising firm, which tried to persuade *Honda* to use it. The company's management team was badly split, but after much discussion the Director of Sales convinced his peers that it was the right campaign. By 1964, one out of every two motorcycles

sold in the United States was a *Honda*. Late that year, the company announced that it would no longer ship on consignment, but would require cash on delivery. Even though every dealer reacted negatively to this, none gave up his franchise.

The “Honda Effect”

In hindsight, these pivotal events - the engine designs achieved by Mr. *Honda*, the decision to go with the Supercubs, the “Nicest People” campaign, the cash-on-delivery policy - all seem ho-hum common sense. But each day, as organizations live out their lives without the benefit of hindsight, few choose so well and so consistently. “Western consultants, academics, and executives . . . tend to impute coherence and purposive reality to events when the opposite may be closer to the truth. How an organization deals with miscalculation, mistakes, and serendipitous events, outside its field of vision, is often crucial to success over time.” Most Japanese products initially did poorly. “The Japanese did not from the onset embark on a strategy to seize the high-quality small car market. They manufactured what they were accustomed to building in Japan and tried to sell it abroad.... Success ... did not result from a bold insight by a few big brains at the top, [but from] senior managers humble enough not to take their initial strategic positions too seriously, [and from] the cumulative impact of “little brains” . . . all contributing incrementally to the quality and market position these companies enjoy today... The Japanese don't use the term “strategy” to describe a crisp business definition or competitive master plan. They think more in terms of “strategic accommodation” or “adaptive persistence”, underscoring their belief that corporate direction evolves from incremental adjustment to unfolding events.... Strategy is defined as all the things necessary for the successful functioning of the organization as an adaptive mechanism.”

Discussion Questions

1. *What do you think of the author's discussion of strategy in the first two paragraphs of the reading?*

This question is designed to stimulate discussion. The author is clearly criticizing the standard “planning” model of strategy. Some students may disagree with these criticisms, arguing that firms need the discipline imposed by strategic planning. They may also like the top-driven nature of this model, as well as its extensive use of empirical analytical tools. Other students may agree with the author's criticism, arguing that the planning approach is too laborious and too abstract.

2. *In summarizing what Honda did the author says, “As organizations live out their lives without the benefit of hindsight, few choose so well and so consistently.” Why was Honda so good and so consistent?*

Partly because they were flexible, but mostly because they were willing to learn from what was going on, whether it was good or bad. First, Mr. *Honda* was persistent in seeking lightweight, flexible, affordable designs. Second, when things went poorly with the bigger motorcycles, which the company had hoped to sell in the United States, *Honda* was willing to shift to an emphasis on the Supercubs when that opportunity presented itself. Then, they seized on the “Nicest People” campaign when that came along. Lastly, having learned about their strong position in the market, *Honda* could insist on the cash-on-delivery policy.

3. *What would have been your next course of action if you had received a copy of the BCG report? What if you had received a copy on what actually happened at Honda?*

This question is designed to highlight the differences in the two approaches. Recipients of the BCG approach would probably want to continue to analyze things. They would take the report back to the office and study it. This is almost the opposite of what the *Honda* executives did. They *acted* on the information they observed when they tried to sell their products. This is the crucial difference: the planning approach encourages analysis (reflection), but the *Honda* effect encourages *action*.

4. *What do you think of the author's notion of “big brains” and “little brains”?*

This question is designed to stimulate discussion. Some students will dislike the criticism of the “big brain” approach. Many of these students still think of managers, particularly top managers, as very powerful, very incisive thinkers, as “commanders.” Other students will recognize that it is unlikely that only the top management of a firm will generate the ideas needed to keep the company moving forward. Ideas must come from as many sources as possible. These students will agree with the validity of the “little brain” approach.

5. *How useful is the term “adaptive persistence”?*

Of course students will differ on this question. Some will find it somewhat meaningless. Others will see the point Pascale is making. Success in forming strategy is a matter of being persistent (in the sense of always trying to improve), but also making sure to adapt and change as the organization learns what works and what doesn't.

6. *What do you think of the author's definition of strategy in the last sentence?*

He defines it as “all the things necessary for the successful functioning of the organization as an adaptive mechanism.” This will strike some students as messy; it's not a “clean,” crisp definition. But that is the point. As this and many other readings have said, strategy is not the precise statement of intentions, but the realization of whatever it will take to make things work. This kind of activity is probably going to be messy.

MAIR, “LEARNING FROM HONDA”

Summary of Reading

This reading extends the insights to be gained from the *Honda* story by examining in more depth how the story of *Honda* has been used by proponents of the different schools of strategy-making. Six influential commentaries on the *Honda* story are examined: the original BCG (1975) version which developed a heavily analytical explanation in terms of the experience curve and debt-led growth; the Pascale version (as recounted in the immediately preceding reading) which emphasizes strategic learning; the Quinn version (see the *Honda* case study by Quinn in the case collection) which further emphasizes the Pascale version in applying it to the whole of *Honda*'s development as a company; the Mintzberg version which also re-emphasizes the Pascale version; the Hamel and Prahalad core competency version (*Honda*'s engine and power-train technologies applied across a wide range of businesses); and finally the updated BCG version of core process capabilities (in dealer management and product development).

The author observes that not just the diversity but also the lack of reconciliation between these versions of the same corporate story tell us a lot about how academics and consultants understand strategy. Several inferences about the “strategy industry” follow.

Firstly, there has been an *overemphasis on success*, and a corresponding neglect of failure or mismanagement in alleged exemplars such as *Honda*. Thus, there were four strategic crises at *Honda* beginning in 1954 that can be significantly attributed to overly autocratic leadership and the costly and stubborn pursuit of niche products such as the money-losing NSX sports car and loss of focus on the more commercially successful mass-market products. In most accounts, such crises are either glossed over or ignored.

Secondly, and relatedly, there has been a pervasive one-sidedness, with strategy writers seeing only what they want to see, and *not letting facts get in the way of a good story*. Thus, the BCG explanation omits a period of successful cost-cutting at constant production volumes (which doesn't fit an experience-curve based explanation); Pascale neglected to mention that the focus on the U.S. market was imposed by senior management in preference to a focus on European and Asian markets proposed by middle managers; Quinn neglects *Honda's* renowned reputation for a unique and tightly-controlled operations management system in favour of bottom-up strategic learning; Mintzberg dismisses the systematic planning that occurred for U.S. market entry, and Hamel and Prahalad fail to observe that the early 1960s move in to autos is the only instance of strategically-significant core competency diffusion and that even today, despite the diversity of *Honda's* product portfolio, motorcycles and autos account for 90% of revenues.

The third and final inference regarding these diverse and opposing interpretations is a motivation to *keep it simple and new*. This motivation is informed by driven by collusion between both strategy thinkers and their clients to simplify and reduce explanations to one dimension; by the need to be distinctive in the "strategy market" encouraging interpretations or theories that are the polar opposite of an existing (and popular) one, and finally, a success story such as *Honda's* endorses a new "strategy products" that can be made to fit the facts of the story.

The reading concludes by suggesting that *Honda's* success may in fact be due to strategically novel thinking spurred by a focus on the reconciliation of apparently contradictory conceptual dichotomies, or a "dichotomy-reconciling strategic capability."

Discussion Questions

1. Revisit your answer to Q.6 in the Mintzberg & Lampel reading in Chapter 1. What do you think now of the usefulness of the identification and discussion of schools of strategy-making?

The answer to that question emphasized that such a discussion provides a language that defines the different approaches to strategy-making, illuminates the differences among them, and suggests when their use is appropriate. The present reading presents a rather gloomier interpretation; that such a discussion may be not just unhelpful but wasteful and damaging to the good management of a firm. The author suggests that different schools of strategy-making exist because of the vested interest of strategy thinkers (who make money by generating new theories) and managers who can be seen to be well-informed and acting decisively by implementing the ideas, or seeming to, of these thinkers.

2. The author suggests that *venality* is what has driven the opposing interpretations of the *Honda* story. Do you agree?

The author certainly presents a compelling argument to this effect. However, it is slightly softened by his recognizing that the strategy thinkers he discusses are all Westerners. It could therefore be argued that the "strategy industry" he critiques is very much a cultural phenomenon, and a specifically North American one. In such a view, what the author sees as *venality* could be represented as the working of an ethic of individualist entrepreneurialism; the ready acceptance of new strategy ideas as manifesting not collusion between thinker and manager but a cultural bias to action rather than reflection; the generation of contradictory views as reflective of a free market in ideas whereby novel thinking through dialectic (which the author attributes to *Honda*) occurs at the level of society, in a distributed fashion and among many independent players, rather than at the level of the company in a more centralized fashion and in the context of a society that more highly valorizes consensus.

3. *What do you infer from this reading about what constitutes good strategy-making?*

Towards the end of the present reading, the author suggests that genuine novelty in strategy-making can be generated by a systematic capability for managing apparently contradictory concepts and practices. Good strategy-making is comprehensive: concerned with bottom-up learning and top-down design, factors in the structure of the industry and the firms' distinctive resources and its capabilities. This reading is itself evidence of this sort of comprehensiveness in thinking about strategy, just as *Honda* illustrates the practice of it.

It was earlier noted (again in the discussion of the Mintzberg and Lampel reading in Chapter 1) that good strategy-making typically requires a tremendous amount of communication and interaction around ideas and possibilities between senior management, middle management, and front-line workers. For strategy to be comprehensive in the way just described implies that such communication and interaction is driven by a continual search for better questions, rather than for the latest hypothesis from a strategy thinker or elsewhere. Finally, this search is informed by a sense of history- an understanding of what has worked and failed in the past. Such understanding has been crucial to this reading's insights on thinking about strategy-making.

CHAPTER 6: STRATEGIC CHANGE

MINTZBERG, AHLSTRAND, & LAMPEL, “TRANSFORMING ORGANIZATIONS”

Summary of Reading

This reading addresses the issue of how to think about the processes of organizational change by representing it in terms of a series of dichotomies, as ranging between formal and informal, conceptual and concrete (see the insert entitled “the change cube”), evolved to planned, micro to macro (see Figure 1), and top-down and bottom-up.

What can be changed in an organization is the direction in which an organization is headed (i.e., strategy) and the state it’s in (i.e., structure). Both range from the conceptual to the concrete. For example, the most conceptual things you can attempt to change in an organization are vision and culture, the most concrete, products and people. And people, for example, can be changed formally through programs of education or more informally through mentoring. Significantly, change in one element of either strategy or structure, implies changing all other elements more concrete than it (e.g., change in culture implies change in structure, systems and people).

The *how* matters at least as much as the *what* of change. The processes of change can be mapped according to the level at which they operate (micro to macro) and whether they rely on being fully formulated prior to being attempted (i.e., planned) or are more organic (i.e., evolutionary). Thus, somewhere in between these two lies driven change (i.e., guided but not fully pre-determined), ranging from micro-level rationalization (i.e., downsizing) to macro-level cultural change.

The purpose of these categories is to gain insight into change in terms of how it affects the configuration of organizational elements. This does not mean that piecemeal change is wrong, but that it may be best confined to more micro and concrete elements, interdependencies of which can be relatively easily managed because cause-effect relations are well understood. Trying to change, say, strategic learning in a piecemeal fashion, will likely lead to conflict and failure or chaos as old ways of working contend with and perhaps stifle isolated changes in elements. However, macro change can evolve from pocket deep in the organization – but managers will at some point need to move to get the organization between such emergent change, if it is indeed, to make it to the macro level.

Top-down change emphasizes the role of the general manager or chief executive in energizing change, and especially the sequencing of change. The rationale for this is that only from the top can the organization break through its inertia, get more efficient (which makes more resources available), and firmly focus the feeling that the organization needs to be transformed. Once this is done, change can become more externally oriented (i.e., in search for opportunities), more decentralized, and elaborated throughout the organization. The reading notes that there is a pattern of research on this topic that emphasizes. For example Jack Welch’s effort at GE focused first on the “hardware” of divestments and delayering, then the “software” of employee empowerment.

Bottom-up change emphasizes the exploratory nature of organizational transformation. This view emphasizes that programmatic change rarely works outside a very limited scope. Rather successful change efforts move from the periphery inwards to corporate headquarters. The best chief executives, in this view, create a “market for change,” but let others decide how to initiate changes and use the business units that change most successfully as a template for others.

The reading closes with a few words of caution: the character of any change effort must be highly customized to organizational circumstances, and sometimes the best change strategy is to do nothing.

Discussion Questions

1. *Why do you think attention to the sequencing of change matters?*

Sequencing recognizes that organizations need to alternate between cycles of change. The basic premise is that organizations cannot be transformed all at once, that a certain amount of exploration is unavoidable, and that it is important to start producing results relatively early. Beginning with the last point, certain things in organizations can be changed more quickly than others – the more concrete elements such as products that can be dropped. Importantly, there will need to be a context than place that helps make sense of such changes i.e., such concrete changes operationalize vague cultural slogans. Focusing on such concrete changes before addressing more conceptual, process-based and informal elements helps produce results and flush out ideas about which softer elements need changing and what the difficulties might be in doing so.

2. *What does the discussion of strategic change in this reading have in common with the discussion of strategy formation in the chapters?*

The previous chapter (especially the Mintzberg and Pascale readings) presented the argument that ‘strategy walks on two legs’, that it can be both deliberate and emergent, and that most significantly it tends to alternate between the two. Thus, in order to learn, strategy-making will need to be relatively emergent, but to capitalize on such learning it will shift to being more deliberate as management seeks to get the organization behind opportunities identified in the emergent phases. The tension between centralization and diffusion is similarly evident in the current reading in its attention, for example, to top-down versus bottom-up change. Finally, in its distinction between the “what” and “how” of change, the reading also re-visits the formulation/implementation dichotomy of earlier chapters.

3. *What do you see as the key message about change management in this reading?*

This should generate a wide variety of answers. Significant points would include that the reading addresses certain organizational elements more explicitly than earlier readings, particularly those discussed under the rubric of structure (such as downsizing and people). In doing so it reiterates the “configuration” message of earlier chapters. For example, the “change cube” clearly identifies the significance of managing interdependencies in change efforts. Also, the reading usefully contrasts approaches, thus allowing better insight into the limitations of a given type of change effort. Finally, the reading also organizes a wide literature on the subject of change management to come up with some useful tools which managers could use to reflect on their own approach to change management.

TUSHMAN, NEWMAN, & ROMANELLI, “CONVERGENCE AND UPHEAVAL”

Summary of Reading

“A snug fit of external opportunity, company strategy, and internal structure is a hallmark of successful companies.” The test is to maintain this alignment in the face of change.

“The most successful firms maintain a workable equilibrium for several years (or decades), but are also able to initiate and carry out sharp, widespread changes (referred to here as reorientations) when their environments shift . . . Less successful firms . . . get stuck in a particular pattern.”

“For long periods most companies make only incremental changes, and . . . they then need to make painful, discontinuous, system-wide shiftsIncremental change is compatible with the existing structure of a company and is reinforced over a period of years. In contrast, frame-breaking change is abrupt, painful to participants, and often resisted by the old guard.”

“Our research strongly suggests that the convergence/upheaval pattern occurs within departments, at the business-unit level, and at the corporate level of analysis.”

Patterns in organizational evolution: convergence and upheaval

Building on strength: Periods of convergence

“Successful companies wisely stick to what works well” Strategy, structure, people and process all fit together, but are changed incrementally. This takes two forms:

Converging change: Fine-tuning. Well-run companies seek ever better ways of exploiting and defending their missions:

- Refining policies, methods, and procedures
- Creating specialized units and linking mechanisms
- Developing personnel
- Fostering commitment to mission
- Promoting confidence in accepted norms, beliefs, and myths
- Clarifying roles, power, status, dependencies, and allocation mechanisms

Converging change: Incremental adjustments to environmental shifts. “Even the most conservative of organizations expect, even welcome, small changes which do not make too many waves. The process is well known:

- Wide acceptance of need for change
- Openness to possible alternatives
- Objective examination of the alternatives
- Participation, in the analysis, of those affected by the change
- Market tests or pilot operation where appropriate
- Time to learn new activities

- Established role models
- Known rewards for success
- Evaluation
- Refinement

Role of executives is to re-emphasize mission and core values, delegate incremental decisions to middle managers.

“The overall system adapts, but it is not transformed.”

Converging change: Some consequences. “For those companies whose strategies fit environmental conditions, convergence brings about better and better effectiveness. . . . Convergent periods are, however, a double-edged sword. As organizations grow and become more successful, they develop internal forces for stability.” Examples: organization structure; employee habits; norms related to operations; special skills.

“This organizational momentum is profoundly functional as long as the organization’s strategy is appropriate However, if (and when) strategy must change, this momentum cuts the other way” Faced with environmental threats, organizations with strong momentum may not register the threat, or may respond by increased conformity to the status quo.

“A paradoxical result of long periods of success may be heightened organizational complacency, decreased organizational flexibility, and a stunted ability to learn Those very social and technical consistencies which are key sources of success may also be the seeds of failure if environments change.” Tendency is strongest in:

- most successful firms in a product class
- historically regulated organizations
- organizations traditionally shielded from competition

On frame-breaking change

Forces leading to frame-breaking change:

Industry discontinuities:

- Deregulation
- Substitute products
- Substitute processes

- Major economic changes
- Legal shifts

Product-life-cycle shifts:

- Emergence phase keys: product innovation and performance
- Maturity phase keys: cost, volume, efficiency

Internal company dynamics:

- Size growth
- Death of key people
- Attitude changes among family investors
- Revised portfolio strategy

Scope of frame-breaking change. “Frame-breaking change is driven by shifts in business strategy . . . [It] involves discontinuous changes throughout the organizationFrame-breaking changes are revolutionary changes *of* the system as opposed to incremental changes *in* the system.”

Here are some of its features:

- Reformed mission and core values
- Altered power and status
- Reorganization (of structure, systems, and procedures)
- Revised interaction patterns
- New executives usually brought in from outside the organization

Here are some of its advantages:

- commitment to a new mission
- energy to overcome prevailing inertia
- freedom from prior obligations
- some from the “old guard” may remain

Overall number of executive changes is small, but “have substantial symbolic and substantive effects on the organization.”

Why all at once? Piecemeal approaches get bogged down in politics, resistance, and inertia. “Frame-breaking change requires discontinuous shifts in strategy, structure, people, and processes concurrently—or at least in a short period of time.” Reasons for rapid implementation:

- *Synergy* within the new structure can be a powerful aid
- *Pockets of resistance* have a chance to grow if implementation is too slow
- *Pent-up needs for change* release forces favouring changes
- *Risk and uncertainty* are inherent in change, but are kept short if implementation is rapid

Patterns in organizational evolution. In organizational evolution, there are long convergent periods punctuated by reorientation. “The most effective firms take advantage of relatively long convergent periods. . . . Frame-breaking change is quite dysfunctional if the organization is successful and the environment is stable. If, however, the organization is performing poorly and/or if the environment changes substantially, frame-breaking change is the only way to realign the organization with its competitive environment.”

“Low-performing organizations either do not reorient or reorient all the time as they root around to find an effective alignment with environmental conditions.”

Executive leadership and organization evolution

“During convergent periods, the executive team focuses on *maintaining* congruence and fit within the organization The key role . . . is to re-emphasize strategy, mission, and core values and to keep a vigilant eye on external opportunities and/or threats.”

“Frame-breaking change, however, requires direct executive involvement in all aspects of the change, . . . [in] specification of strategy, structure, people, and organizational processes *and* in the development of implementation plans.”

“The most effective executives . . . foresaw the need for major change Ideally, by acting before being forced to do so, they had more time to plan their transitions.

“[But] such visionary [executives] are the exceptions. Most frame-breaking change is postponed until a financial crisis forces drastic action.”

“Most frame-breaking upheavals are managed by executives brought in from outside the company . . . [and are] coupled with CEO succession in more than 80 percent of the cases.”

Reasons:

- different skills
- fresh perspective

- strong belief in new mission
- unfettered by prior commitments
- symbolizes need for change
- excitement of new challenge

These typical patterns are far from satisfactory for a particular organization. The vital tasks are:

- to manage incremental change during convergent periods
- to have the vision to initiate and implement frame-breaking change prior to the competition
- to mobilize an executive who can initiate and implement both kinds of change

Conclusion

Things to remember when environments change sharply:

- frame-breaking change cannot be avoided
- changes must be made rapidly
- direct involvement of (probably new) executive is needed
- there are no patterns in the sequence of frame-breaking changes, and not all strategies will be effective

Issues for executive leadership:

- need to manage for balance, consistency, or fit during convergent period
- need to be vigilant for environmental shifts, in order to anticipate need for frame-breaking change
- need to effectively manage incremental as well as frame-breaking change
- need to build (or rebuild) top team for frame-breaking change
- need to develop core values to act as anchor during frame-breaking changes
- need to develop organizational history as a way to infuse pride

- need to bolster technical, social, and conceptual skills with visionary skills; the latter add energy, direction, and excitement

Discussion Questions

1. *The authors say that the convergence/upheaval phenomenon applies to all levels of analysis—department, business, corporation. What are the implications of this?*

Students in the policy course often have a problem seeing the relevance of concepts that typically are most applicable for top management only. Most of the concepts in this text will make people more intelligent members of organizations, regardless of level, because they will understand organizations and strategy-making better.

The point the authors make here is even more specific in its relevance for all organizational members. They are saying that even if you are not a C.E.O., you can expect to see this pattern of convergence and upheaval. It seems to be a “fact of life,” maybe even an inescapable part of “human nature,” organizationally speaking. “This pattern is normal,” should be the message to students. “Learn how to deal with it, at whatever level.”

2. *How does the section on “building on strength” relate to Mintzberg’s Chapter 5 reading on “Crafting Strategy”?*

In that reading, Mintzberg made the point that stability rules most organizations most of the time. Managing strategy becomes an exercise in squeezing the most out of stability. He emphasized how change, if there is too much of it, can actually *inhibit* strategy-making. Strategy is a pattern in a stream of action; if there’s too much change, there can be no pattern.

He also discussed how change comes in two varieties—constant, incremental and not terribly important, on the one hand, and discontinuous and significant, on the other. The key to effective strategy-making is to recognize, in the midst of stability, these significant discontinuities, and change accordingly. These two kinds of change correspond roughly to these authors’ constructs of “converging change” and “frame-breaking change.”

3. *What is your reaction to the section on “Converging change: Some consequences”?*

The authors use some interesting language to describe convergence; it “brings about better and better effectiveness” and it “is profoundly functional.” It sounds like convergence is mostly a good thing. But “mostly” doesn’t mean “entirely.”

The authors point out that convergent momentum is a double-edged sword. “As organizations grow and become more successful, they develop internal forces for stability . . .” Faced with environmental threat, organizations with strong convergent momentum may not register the threat, or may respond by increased conformity to the status quo. “A paradoxical result of long periods of success may be heightened organizational complacency, decreased organizational flexibility, and a stunted ability to learn.”

4. *What is your reaction to the statement, “Frame-breaking changes are revolutionary changes of the system as opposed to incremental changes in the system”?*

This phrase succinctly captures the difference between the two kinds of change. Frame-breaking change alters the *entire* system, hence, it is a change *of* the system. Convergent change keeps the system intact, merely adjusting its elements, i.e., it is change *in* the system. The phrase is intended to highlight the difference between fine-tuning or incremental adaptation, on the one hand, and upheaval, on the other.

An analogy might be helpful. Convergent change is like adjusting the contrast, the antenna, the fine-tuning, etc., on an old black-and-white television set. One merely tries to get the most out of the system. Frame-breaking change is like throwing out the old black-and-white and getting a state-of-the-art colour television set with cable hook-ups and a satellite dish. The whole system is changed.

5. *What is your reaction to the author’s reasons for the need for rapid implementation of frame-breaking changes?*

This question is intended to stimulate discussion. Many students will question the effectiveness of making so many changes so quickly. They will have a point—no doubt frame-breaking change is very traumatic. But slow change might get bogged down in politics, and pockets of resistance will have time to form.

There are some positive aspects to fast implementation, too. There may be synergy—if all the pieces are new, and they will work together better than some old and some new pieces. Upheavals are preceded by long stable periods during which needs for change have been pent up. The change effort will release forces favouring change, and rapid implementation can exploit them. Lastly, the risk and uncertainty which characterize frame-breaking change are kept short if implementation is rapid.

6. *What are the implications of the section on “Patterns in organizational evolution”?*

This is very similar to the points made in Chapter 5 by Mintzberg. Here is what Tushman, Newman, and Romanelli say: “The most effective firms take advantage of relatively long convergent periods. . . . Frame-breaking change is quite dysfunctional if the organization is successful and the environment is stable. If, however, the organization is performing poorly and/or if the environment changes substantially, frame-breaking change is the only way to realign the organization with its competitive environment.” In other words, there is no need to constantly change; that is in fact a bad thing. But you had better change, and change big, when big shifts happen.

7. *What is your reaction to the authors’ claim that “most frame-breaking change is postponed until a financial crisis forces drastic action”?*

Most students are amazed that this phenomenon exists. They assume that sophisticated managers should be capable of avoiding this type of cycle. They must be reminded that this is the norm. And it

is the norm not because managers are idiots, but because there are powerful forces acting on most people who populate most organizations, forces that make stability easy and change difficult.

8. *The authors declare that “most frame-breaking upheavals are managed by executives brought in from outside the company.” What do you think of this?*

Some students will be surprised at this, but the authors give a host of reasons as to why this might be a good thing. The new managers bring new skills with them. They bring fresh perspectives to old problems that have plagued the company. They have a strong belief in the new mission. They carry no organizational baggage—they are unfettered by prior commitments. They are likely to be excited by the challenge of the new assignment. And, perhaps most importantly, they symbolize the need for change.

QUINN AND VOYER, "LOGICAL INCREMENTALISM"

Summary of Reading

Strategy change processes rarely resemble the rational-analytical systems touted in the literature. They are typically fragmented, evolutionary, and intuitive. “Real strategy tends to *evolve* as internal decisions and external events flow together to create a new, widely shared consensus for action...” *The formal systems planning approach* states which factors *should* be included in a systematically-planned strategy. It tends to focus on quantitative factors, under-emphasizing qualitative, organizational, and power factors. This kind of planning should be just one building block. *The power-behavioural approach* literature has enhanced our understanding of multiple goal structures, the politics of strategic decisions, bargaining and negotiation processes, satisfying in decision-making, the role of coalitions, and the practice of “muddling” in public management.

Neither of these approaches, however, is adequately descriptive of strategy processes. Effective strategies tend to emerge incrementally and opportunistically in a cohesive pattern. The logic behind this process is so powerful that it may be the best approach to recommend for strategy formulation in large companies. Because of cognitive and process limits, this approach must be managed and linked together in a way best described as “logical incrementalism.” Such incrementalism is not “muddling.” It is a purposeful, effective, proactive management technique for improving and integrating *both* the analytical and behavioural aspects of strategy formulation.

Even though “hard data” decisions dominate the literature, there are various “soft” changes that affect strategy, for example overall management style, external (especially governmental) relations, innovative capabilities, and value and expectation changes, and their effects on worker and professional relationships.

In the authors’ research, executives reported that no single formal analytical process could handle all strategic variables simultaneously. Various events often precipitated interim decisions, which shaped the company's future strategy. Top executives tried to deal with these precipitating events incrementally. Early commitments were kept broadly formative, tentative, and subject to later review. Future implications were too hard to understand, so parties wanted to test assumptions and have an opportunity to learn. Also, top executives were sensitive to social and political structures in the organization, and tried to handle things in a way that would improve the dynamics. Logical incrementalism makes it easier to avoid the negative effects of both diversification and reorganization.

Formal planning in corporate strategy

Formal planning techniques serve some essential functions. They discipline managers to look ahead, and to communicate about goals and resource allocations. Long-term planning encourages longer time horizons, and facilitates the evaluation of short-term plans. They "create a psychological backdrop and an information framework about the future against which managers can calibrate short-term or interim decisions." Lastly, special studies have a large effect at key junctures for specific decisions.

However, planning actually institutionalizes incrementalism; for two reasons. First, most planning is "bottom up," and the people at the bottom have a vested interest in their existing products and processes. Second, most plans are meant to be "living" or "ever green," intended to be only frameworks, providing guidance and consistency for incremental decisions. To do otherwise would be to deny that further information could have value. Thus, properly formulated formal plans are also a part of an incremental logic. "Occasionally . . . managements do attempt very broad assessments of their companies' total posture.... [But] major product thrusts ... proved unsuccessful. Actual strategies therefore evolved as each company overextended, consolidated, made errors, and rebalanced various thrusts over time. And it was both logical and expected that this would be the case."

Strategic decisions cannot be aggregated into a single decision matrix, with factors treated simultaneously to achieve an optimum. There are cognitive limits, but also "process limits"; timing and sequencing requirements, the need to create awareness, build comfort levels develop consensus, select and train people, and so forth. Successful executives connect and sequence a series of strategic processes and decisions over a period of years. They attempt to build a resource base and posture that is strong enough to withstand all but the most devastating events. They constantly reconfigure corporate structure and strategy as new information suggests better—but never perfect—alignments. The process is dynamic, with no definite beginning or end.

Logical incrementalism

“Strategy deals with the unknowable, not the uncertain. It involves forces of such great number, strength, and combinatory powers that one cannot predict events in a probabilistic sense. Hence logic dictates that one proceed flexibly and experimentally from broad concepts toward specific commitments, making the latter concrete as late as possible in order to narrow the bands of uncertainty and to benefit from the best available information. This is the process of ‘logical incrementalism’.... [The latter] is not ‘muddling’.... It is conscious, purposeful, proactive, good management.” It allows executives to blend analysis, organizational politics, and individual needs into a cohesive new direction. Research revealed fourteen sub-processes managers use to manage incrementally; these sub-processes address such issues as commitment, organizational awareness, and political support (the text contains a full listing).

The overall process may be incremental, but it is not piecemeal. Effective strategic managers constantly seek to distil a few (six to ten) central themes that draw the firm's actions together. These maintain focus and consistency in the strategy. The heart of all controlled strategy development is coalition management. Top managers act at the confluence of pressures from all stakeholders. These stakeholders will form coalitions, so managers must be active in forming their own. “People selection and coalition management are the ultimate controls top executives have in guiding and coordinating their companies' strategies.”

Recent managerial approaches emphasizing formal planning have failed because of poor implementation. This is the “classic trap of thinking about strategy formulation and implementation as separate sequential processes Successful managers who operate logically and proactively in an incremental mode build the seeds of understanding, identity and commitment into the very processes which create their strategies”

Discussion Questions

1. *In what sense are most issues that trigger strategy formation not amenable to quantitative modelling or even formal financial analysis?*

One has only to examine a list of the factors listed by Quinn to see that quantitative analysis is difficult, maybe impossible. Changes in overall organizational structure have implications that are not quantifiable. The nature of overall management style at an organization is almost by definition qualitative. External (especially governmental) relations are riddled with so many problematic and unpredictable areas that quantitative analysis would be very burdensome, at best. Questions of acquisition, divestiture, or divisional control would seem to be amenable to quantitative analysis (e.g., formal criteria for acquisition candidates), but in practice such things are almost always social, organizational, or political. To a large extent, issues related to international posture or relationships turn on cultural questions, which are not quantifiable. Innovative capabilities rely to some extent on investment decisions, but they also require non-quantifiable changes in skill levels. Personnel motivations affected by growth, or even “regular” motivations, have always been tricky. Even trickier are value and expectation changes, and their effects on worker and professional relationships. Lastly, it may be true technological changes can be predicted, but they never have been with the kind of precision hoped for with quantitative modeling or forecasting techniques.

2. *What is your opinion of the authors' assertion that "no single formal analytical process could handle all strategic variables simultaneously on a planned basis"?*

This question is intended to stimulate discussion. Some students will disagree with the assertion, arguing that well-designed and well-implemented planning processes should be able to handle large number of strategic variables simultaneously. They will argue that that is what operations research (or

management science) is all about—handling problems with large numbers of variables. Others will stress that strategic variables are not the same kind of variables well-handled by analytical procedures. They are inherently ambiguous, and usually not quantifiable, as the list in the preceding answer showed. Moreover, many strategic issues can only be handled by the passage of time e.g., creating “comfort factors,” learning, and building consensus.

3. *Why is it so important to deal with “precipitating events” in an incremental fashion?*

Quinn points out that no organization can possibly foresee the timing, severity, or even the nature of all precipitating events. Also, there might not be the time, the resources, or the information to do a full formal analysis. Yet decisions made under these conditions can have profound implications—new thrusts, precedents, lost opportunities—that can be difficult to reverse later. The most logical response is to proceed in small steps that can be assessed, reviewed, and changed, until decision makers have a better idea of what is going on.

4. *What do you think of the notion of “comfort factors”?*

This question is designed to stimulate discussion. Some students may be confused by this concept. They may view changes in strategy as being pretty straightforward—once you know what the “right” (determined through analysis) thing is, do it. Quinn’s point, recognized by some students, is that any major change must take into account the individual and organizational stakes that people have in the status quo. Before an organization can undertake a major strategic change, people have to understand it and be committed to it. They will be neither until they feel comfortable with the proposed change. That is why it is often important to let some time pass (or do other things) to create a feeling of comfort with a new idea.

5. *Can “formal planning practices actually institutionalize incrementalism”?*

There are two reasons why planning practices might actually act as a spur for incrementalism. First, most planning is “bottom up,” and the people at the bottom have a vested interest in their existing products and processes. Consequently, managers need to proceed incrementally to overcome some of these vested interests. Second, most plans are meant to be “living” or “ever green,” intended to be only frameworks. If this is true, then plans will be changed often as the organization reams. The plans will still be good for providing guidance and consistency to the incremental decisions. Thus, formal plans used as frameworks can be a good support mechanism for incremental logic, and actually encourage it. These are the things Quinn means when he says that formal planning institutionalizes incrementalism.

6. *What do you think of the authors’ statement that it was “logical and expected” that major product thrusts would fail, and strategies would actually evolve as each company overextended, consolidated, made errors, and rebalanced various thrusts over time?*

This question is intended to highlight one of the most important, and provocative, points made in the reading. By now, most students will grasp that this text is taking a radically different approach to thinking about strategy-making. If there are any holdouts, this statement will provoke them. It is saying that strategies are not analytically formulated, but instead evolve as organizations learn through trial and error. This will be a real eye-opener for most students. Furthermore, Quinn says that most managers *expect* this, and find it *logical*. It is only in the traditional textbooks that the all-knowing strategic manager still exists. In real-life organizations people expect many bumps along the way as they learn.

7. *How can process limits be as important as cognitive limits?*

The cognitive limits that constrain individual decision makers have been getting much attention for many years now. If strategy-making is seen as primarily an individual activity, then these cognitive

limits are very important. Quinn's point in this part of the reading is that process limits are equally important, because he views strategy-making as an organizational (i.e., multi-individual or collective) activity. It may not be possible for an individual to process large quantities of data simultaneously. But, it is at least as difficult for managers to make large numbers of people aware of the need for change, make them comfortable about it, develop consensus among them as to the proper actions, train them in new skills, etc.

8. *What are the implications of the statement that “strategy deals with the unknowable, not the uncertain”?*

Uncertainty means that several future events are possible, but that the decision maker cannot assign probabilities to their occurrence. Quinn's point is that it is not even realistic to expect decision makers to think of the possible future events, let alone probabilities. It is simply not possible to know what the future will bring, at least not in the kind of long-term time frame, which characterizes strategic decision-making. The implication of this is that managers should strive to make their organizations as flexible, responsive, and adaptive as possible. That way, no matter what happens, there is the chance for an appropriate response. Part of this capability involves using logical incrementalism—proceeding in small steps, going from the broad to the specific, waiting for as long as possible.

9. *How can it be said that “the rationale behind [logical incrementalism] is so powerful that it perhaps provides the normative model for strategic decision-making”?*

Quinn makes this statement at the beginning of the reading, and he spends most of his time in the reading trying to justify it. The essence of his argument is that strategy deals with the unknowable. There are large number of factors that must be taken into account when developing strategy, and process and cognitive limits restrain what strategists can do. Therefore, strategic factors cannot all be treated simultaneously. Given these realities, Quinn argues that the normative (or recommended) approach is to proceed incrementally, learning and building awareness and commitment as you go. This is far superior to trying to plan everything out in advance, and then trying to implement those plans i.e., the formal-systems planning approach, which is what most of the literature recommends.

10. *In what way is logical incrementalism not muddling, but instead conscious, purposeful, productive, and good management?*

If a strategist were to proceed incrementally, but without knowing what she or he was doing, without tying everything to an overarching sense of direction, without being aware of the political and social structures that exist in the organization, without trying to build awareness and commitment to what he or she was trying to accomplish—that would be muddling. But the *logical* incrementalist is proceeding in small steps *because* she or he is aware of these issues. Accordingly, logical incrementalism is conscious, purposeful, productive, *good* management.

11. *What do the authors mean when they say that managers should be “leading the formal information system”?*

Students often misinterpret this phrase. It does not mean being in charge of the formal information system. It means being ahead of it. The earliest signals for strategy change rarely come from formal company systems. Using multiple internal and external sources, effective managers must sense the need for change before the formal systems do.

12. *What is surprising about the statement that, in early stages of strategy formation, “management processes are rarely directive”?*

In the context of most of what has been discussed in this text, there is little that is surprising in this statement. It is only surprising in the context of the mainstream strategy model.

13. *How effective and important is the manipulation of symbols?*

Students may differ on this, but the evidence shows that symbolic manipulation is both effective and important. Symbols may help managers signal to the organization that certain types of changes are coming, even when specific solutions are not yet in hand. Highly visible symbolic actions can communicate effectively to large numbers of people. Grapevines can amplify signals of pending change. Symbolic moves often verify the intention of a new strategy, or give it credibility in its early stages.

14. *What is the purpose of planned delays?*

Planned delays allow the organization to talk through threatening issues, work out implications of new solutions, or gain an improved information base. Sometimes, strategic concepts that are initially resisted can gain acceptance and commitment simply by the passage of time and open discussion of new information. Many top executives, planners and change agents consciously arrange such "gestation periods."

15. *How does the discussion of “tactical shifts and partial solutions” differ from the “mainstream” strategy formulation model?*

The mainstream model prescribes that strategy should be developed by top management as an integrated whole, using analytical techniques, prior to any actions taking place. Implementation is by lower-level participants. What Quinn suggests in this section could not be more different. Top management encourages others to undertake many small, low-risk projects. These are unlikely to attract opposition the way a large-scale proposal might. Progress is made, but it is partial, tentative, and experimental. As events unfurl, the solutions to several initially unrelated problems tend to flow together into a new synthesis. Note the differences. Action occurs first. The strategy comes in pieces, not an integrated whole. Synthesis is used instead of analysis. The sources of new strategy are organizational members, not top management. It is impossible to distinguish formulation from implementation.

16. *How can a C.E.O. gain broader political support for an emerging thrust, and why is it important?*

Committees, task forces or retreats tend to be favoured mechanisms. By selecting such groups' chairmen, membership, timing, and agenda, the guiding executive can largely influence and predict a desired outcome, yet nudge other executives toward a consensus.

17. *What is surprising in the idea that “successful executives tend to honour and even stimulate legitimate differences in views concerning . . . major directions”?*

This is a trick question, because there is nothing surprising in this. This behaviour is exactly the kind of thing Mintzberg had in mind when he said that politics can be the challenging force for change. It might be argued that firms should adopt contradictory prescriptions and tolerate some irrationality.

18. *What is the idea behind “trial balloons”?*

A trial balloon is a concept launched in order to attract options and concrete proposals. It is usually launched by someone other than the executive; this prevents him/her from being pinned with blame if the balloon is quickly punctured. It usually attracts lots of attention and reaction. By floating a trial balloon, and without making a commitment to any specific solution, the executive activates the organization's creative abilities.

19. *What is significant about this statement: “Despite adhering to the rhetoric of specific goal setting, most executives . . . were careful not to state many new strategic objectives in concrete terms until they had carefully built consensus among key players”?*

The statement emphasizes the need to be aware of the power structure in an organization. The executive provides broad goals, proper climate, and flexible resource support, without public commitment. This avoids attention on, and identification with, any project. Yet small projects, deep within the organization, test options, create skills, and build commitments for several possible options.

20. *What is your reaction to the assertion that “when to crystallize viewpoints and when to maintain open options is one of the true arts of strategic management”?*

The first reaction is that he is probably correct. The second reaction is disappointment, because the statement offers no guidelines about how to practice the art. The third reaction is the realization that that is what this text has been about—strategy is not formed or managed in a vacuum. Strategic managers must become engaged in their organizations' activities, much like the potter in Mintzberg's

"Crafting Strategy" reading. Only after a long period of intimate involvement with their organizations will strategists be able to practice this "true art."

21. *Why is mutating the consensus "a most difficult but essential psychological task"?*

It is difficult because it goes against the organization's natural predisposition at this point. As Mintzberg points out, what usually happens after an upheaval is a long stable (or convergent) period. The organization wants to become "re-obsessed" with its strategy. It is important because mutating the consensus is one way to avoid the "contamination" Mintzberg mentioned in his reading earlier in this chapter. Most of the organizations where logical incrementalism would be used would be machine organizations. That form of organization is prone to being contaminated by over-standardization. Mutating the consensus would help minimize the effects of this.

22. *What is significant about the statement that the incremental process is not linear and "is so continuous that it may be hard to discern the particular point in time when specific clear-cut decisions are made"?*

What is significant about this is how dramatically this differs from the mainstream strategy model. The point at which a clear-cut decision is made is unmistakable. Everything is neat, orderly, rational, and sequenced. The strategy is formulated as an integrated whole in advance of any action. Usually the responsibility for the strategy can be easily fixed on someone in top management.

23. *Why is it important to "concentrate on a few key thrusts"?*

Too many managers and strategists dissipate their energies by trying to do too many things. Also, it is more difficult for the people in an organization to follow a large number of thrusts. As the authors put it, the few key thrusts "help maintain focus and consistency in the strategy. They make it easier to discuss and monitor intended directions."

24. *How does the section on coalition management, especially the two quotations, relate to the notions of (a) strategy as perspective and (b) process strategy (Chapter 1)?*

The first speaker says, "If good people share the same values, they will instinctively act together." This is as good a description of strategy as perspective as one could find. The speaker is saying that the shared values, which Mintzberg called ideology, will guide strategic action. The second speaker says, "How do you manage the strategic process? It all comes down to people selecting people." This is one aspect of process strategy, which was the indirect control of strategy by control of organizational processes.

BADEN-FULLER AND STOPFORD, "THE CRESCENDO MODEL OF REJUVENATION"

Summary of Reading

Is rejuvenation really possible? A firm that has been in trouble must first stop the short-term problems. But it then has to create some long-term momentum and build a durable recovery.

The crescendo model

"We regard building corporate entrepreneurship as the essential ingredient for lasting rejuvenation." The firm must avoid quick fixes like huge capital investments, reengineering, or shallow TOM. These rarely have any sustainable reward. Our suggestion is to follow the four-step crescendo model. "Crescendo is a musical term meaning 'a gradual increase in volume.'"

Galvanize

“Often overlooked” is the obvious way to begin—create a top team dedicated to renewal. Rejuvenation requires the repair of the entire organization and how the parts interact. This requires effort from everyone, but starts with the top team. Galvanizing the top team requires an agenda beginning with a broad understanding of the issues and moving to a belief in the value of progress through many small steps. It is better to initiate action than to chase after grand schemes.

Simplify

Building something new often requires cutting some of the old, e.g., old control systems. Simplification focuses action more acutely. It also signals to stakeholders that positive steps are being taken. But simplification is merely a temporary measure.

Build

This overlaps simplification, and involves building new advantages. This is where organizational, rather than individual, entrepreneurship needs to be nurtured. New challenges must in time be added to the solving of old problems. At this step, articulating a vision and a direction for progress is very helpful, as is experimentation. But experiments should be small to reduce risk. Learning also starts slowly but builds until the organization becomes skilled at developing new sells and advantages. It is at this point that teamwork should be introduced.

Leverage

The final stage is leveraging advantages and maintaining momentum. As the organization grows in competitive strength, it can expand the sphere of its operations into new markets, new products, and new parts of the value chain. Tools to accomplish the leveraging include acquisitions, mergers, strategic alliances, or internal development. The speed of expansion must not be too great that it stifles innovation.

These four steps are not discrete stages. They merge into one another. The process tends to be messy, a characteristic of most complex organizations. It may also have to happen more than once.

Rejuvenation happens in loops of learning. Like the samba, there may be one step back and two steps forward. This is what happens in simplification and building. In the early stages of renewal, cutting may have to be radical. In building, progress happens best in small iterations. Those spread the risk. Steps can get bigger as rejuvenation occurs. Small steps also help to encourage an entrepreneurial culture.

Galvanizing the top team

Mature organizations may have flashes or pockets of entrepreneurship, but they need commitment from top management to make the needed connections. Initial moves are often made by a new C.E.O., but building a team ensures continuity if someone leaves. These teams should span all functions to maximize their intuition. This typically involves the organization's power brokers, who otherwise could slow things down. An effective top team avoids vacillation, extraneous outsiders and quick fixes. All members of the team must share an understanding of the problem and the need to engage in concerted action to solve it.

Sensing the need to start

It is difficult to sense crisis, and even more difficult to recognize opportunity. Vague signals may evoke nothing more than general concern and tinkering with symptoms. More precise signals may provoke nothing more than this because of a lack of a shared will to respond. If the signal does not seem urgent,

managers may put it aside to deal with other problems. If it seems too urgent, management may be paralyzed by the needed complexity of response.

Even competitive analysis can lead to complacency. Competitors may be doing better than the firm is on some measures, but not all. Many aspects of poor performance can be excused: "It's not our fault." Competitor benchmarking analyses can even be used to justify the status quo: "If what others are doing were even possible, we'd be doing it too." Mature organizations are often trapped by the illusion of accounting profits. Successful rejuvenators develop measures that create a sense of urgency early. A broader scorecard, balanced between financial and non-financial goals, seems likelier to lead to success. It would help anticipate where trouble might start by amplifying signals that warn of danger and dampening signals that tend toward complacency.

Triggers for action

Sensing doom does not seem to be as effective an action trigger as falling profits are. While difficult, it is possible and desirable for a firm to anticipate a crisis before becoming debilitated by it. The earlier the message is understood, the better. Getting the message from inside (e.g., a manager or shareholder) is better than getting it from outside (e.g., customers or suppliers). Anticipating a crisis allows response at much lower cost than responses after the onset of crisis. Actions which appear to have been low-risk may at the time have seemed very risky.

Empowering management

Another necessary condition for rejuvenation is a top team that believes it has the power and responsibility to do something. The team must take a systemic look and avoid quick fixes. "The top team must also appreciate that it does not have to know all the answers before it can act. Its job is to chart the direction ahead and enlist the aid of others in finding durable solutions." This appreciation typically comes gradually.

Blame is often fastened on outside factors like "the environment, poor demand, over-fussy customers, adverse exchange rates, even the weather." Sometimes previous management regimes are blamed. All this blaming misses an important point—only the top team has the responsibility and the ability to get the organization out of its mess. It is also quite common for management teams to point to particular functions as the problem. This is naive. Organizations are complex systems with many interrelated parts. It is the system that is typically at fault.

Choosing effective action

Teams trying to rejuvenate a firm have tried many approaches; lots of data gathering, lots of experimentation, and examining how other firms have done it. But false paths and blind alleys can seduce these teams into thinking that they've made progress. "The steps we suggest mark out the most effective path of action are in stark contrast to other actions we observed." Simplification involves cutting to the core. Building creates the foundation for corporate entrepreneurship; it requires an extended time perspective. The approaches discussed below fail to address key issues effectively.

Scrap everything and start afresh

The firm should save what's of value. Only if all else fails should an organization be extinguished.

Seeking outside support: this is not a viable substitute for internal action. Firms have a duty to lobby government, but not to the extent that other actions are paralyzed.

Top-down directives that address symptoms, not causes: this can lead to discouragement of corporate entrepreneurship and unhealthy vacillation between extreme directives issued by top management.

Going for the big hit: making large-scale investments in state-of-the-art technology and systems, at initial stages of the process, is rarely effective. It is a quick fix that commits the firm to a long-term course of action that may not be the right one. Adding much new capital equipment without an increase in skill base courts disaster. These can pay off once the firm has built its entrepreneurial capabilities.

Culture change programs without corresponding action: this sends a signal that there is no immediate crisis. Culture may need to change, but not at the expense of taking no action. In a crisis, immediate action is a crucial necessity.

The quick fix (TQM or process reengineering): almost all rejuvenators do TQM, but not in a quick fix way. Instead, they make a considerable investment of time, energy and effort. They make sure to acquire the needed skills. TQM and reengineering require persistence and patience.

The way forward

What is needed is to galvanize a top team committed to action. Critical choices need to be made about strategic scope. Entrepreneurship must be built. North American managers tend to favor top-down approaches with lots of specification. In Europe "those whose job was to look after a whole portfolio often preferred to work on encouraging managers to embrace the values of creativity, innovation, and challenge to conventions without specifying the actions or processes." Setting challenging targets in these circumstances often leads to more durable change. It is not clear which is the better approach. But Real transformation of a business cannot begin in earnest without the recognition by its top managers that a new direction must be found.

Discussion Questions

1. What is the key point of the crescendo metaphor?

The authors believe that too many managers intent on organizational rejuvenation try to do too much too quickly. A crescendo must be reached only after a long, gradual increase in volume. Just as a symphony will reach its climax only after a long introduction, so should an organization bent on rejuvenation go into high gear only after it has built its capacity to do so.

2. Why is it so important to galvanize the top team?

This is so important that the authors devote much of the reading to it. Whether they realize it or not, organizations that need rejuvenation are facing a crisis. It may come soon, or it may come later, but it welcome. The top team in such an organization must share an understanding of the seriousness of this situation, and must be prepared to act on it, not just think about it. Moreover, it must be prepared to act in a way that emphasizes action that will help in the short term but especially help in the long term. A top team that is not galvanized to walk this tightrope will surely fail.

3. What is the point in simplifying?

The top team must quickly identify what are the core areas for organizational action. Once those have been identified, they must be emphasized above all other possible activities. This will strengthen the core in a time of crisis, it will free up resources from extraneous activities to allow greater focus on the core, and it will help all stakeholders, inside and outside the company, get a sense that things are happening. But the authors point out that simplification can be only a temporary thing.

4. What is the significance of building?

Simplifying can be only temporary. *Building* is what will carry the organization into a successful future. In addition to solving old problems better, building must be about finding new challenges. It should also be about experimentation, but only at times when the organization has the ability to learn from the inevitable lows that will come with the highs of experimentation. Lastly, it is during this stage that the company should implement teamwork. This is a difficult organizational process to put in place, but successfully done it can lead to enduring success.

5. *How does leverage fit into the rejuvenation model?*

Leverage is, in a sense, the crescendo. After the building process has created a solid foundation of new advantages, the company must use them to create even more advantages and even more success. It is only after going through the painstaking processes of galvanizing, simplifying and building that the organization is ready to reach a peak and really try to stretch itself.

6. *What is the point of the section on sensing the need to start?*

The authors catalogue a host of excuses that top managers use to avoid concluding that an urgent situation is at hand. Here is a partial listing: *The problem is temporary. We must move slowly to avoid upsetting the existing order. It is someone else's fault that we are in trouble. The problems lie in specific areas of the organization; they are not widespread. The financial figures tell us what is wrong.*

Most of these excuses are prescriptions for continued problems. Difficulties may be temporary, but many are likely to become chronic. Action-oriented change must be undertaken since the situation is urgent. Blaming others is unproductive since we are the ones responsible for improving the situation. (It is also often the case that a bad situation is of our own doing.) Urgent, crisis-like situations are rarely caused by the mistakes of a subset of the organization. It is usually the system that is at fault. Lastly, too many firms over-rely on financial figures. Those can tell only about the past. A firm in need of rejuvenation needs to look to the future.

7. *In this book we have looked at methods for competitive analysis. Yet in this reading the authors say that competitive analysis can be used as an excuse for inaction. How can that be?*

In any competitive analysis, a firm is likely to find that some competitors are performing better, but also that some are performing worse. While the former situation may cause alarm, the latter may cause a false sense of complacency. Even competitive benchmarking can be problematic. One firm identified a competitor's practice as so unlikely that it rationalized "if it was so great we'd be doing it too." The lesson is that if a company does competitive analysis, it must take the results to heart and use them to galvanize rejuvenating action.

8. *What is at the heart of the authors' criticisms of TQM and reengineering?*

The authors do not dismiss the value of these tools out of hand, but point out two caveats. First, firms should not throw away everything they have done, which is often the prescription with TQM and reengineering. Instead, by using simplification, firms should save what is of value. Second, TQM and reengineering are too often seen as quick fixes. Undertaken with patience and persistence, they hold good promise. But undertaken in the wrong spirit, they will undermine the rejuvenation process, a process that requires the firm to build its capabilities methodically, reaching a crescendo slowly, not quickly.

CHAPTER 7: COGNITION

HURST, "THE DANGERS OF OBJECTIVITY"

Summary of Reading

The central concept in this reading is managerial objectivity, or the power to stand outside a situation, map it onto a logical framework, and infer and initiate action that doing so suggests. The reading picks up on a theme raised in the Mintzberg et al reading in Chapter 6; that the details (and especially how the details are connected/ their logic) of every major change effort must be customized to the organizational context. The author warns against “formulas for successful strategic change” (such as “reengineering”) that seeks to apply the details of a successful change from one organization in another without attention to the implications of a different organizational context. Two reasons are identified to support the author’s position.

First, the details copied from another organization’s change effort are typically only the explicit ones. But most of the assumption underpinning the change effort will have been tacit, and to discover and test these takes experience and action. The Japanese quality revolution is cited as a classic example of not understanding the possibilities for change until they have been enacted. The second reason why an excess of objectivity can be a hindrance to change is that it generates the impression that senior managers are themselves wholly outside the process, manipulating those subordinate ranks within it. This will be fatal to the quality of collaboration and feedback that the change effort generates.

The author concludes that senior managers role is to lead change, rather than to manage, its model change. They are fully part of what is being changed and play the key role of modeling the desired changes in behaviour.

Discussion Questions

1. *“The reading suggests two fundamentally different ways of handling the uncertainty of change, clearly favouring one over the other.” Discuss this statement.*

The core concern of this reading is with situations of incomplete information, and that such situations can be coped with only through action. To borrow a term from the Wrapp reading in Chapter 2, managers must expect to “muddle through” for a radical change effort to succeed. The ambiguity inherent in such situations cannot be overcome by additional analysis or by satisfying a demand for hard facts. Managers must be comfortable with this ambiguity and act their way to a more completely understanding. Seeing to collect enough hard facts and analyze them, in the belief that the ambiguity will be removed and an optimum decision made, leads only to an illusion of control. This illusion of control compounds the challenge of successful change by shutting out feedback that tends only to increase ambiguity again because it is inconsistent with assumption arrived at through detached analysis, and interprets resistance to change as demanding an accentuation of the implementation effort, rather than its revision.

2. *To what extent might the two different ways of handling change identified by the reading be culture-bound?*

The quality revolution example noted by the author is suggestive of a Western/Asian dichotomy in orientation to change. It has been established for some time in the management research literature that Japanese managers are more likely to see the world as partly ambiguous than Westerners would, and feel that this ambiguity, like a random error component, cannot be overcome by further analysis or a demand for hard facts. Moreover, Western business schools, with their typical emphasis on understanding a business situation in the detachment of the classroom and the case-study method, and in a strong emphasis on quantitative techniques, essentially train students to understand a situation through detachment and analysis.

Summary of Reading

This reading addresses, perhaps more comprehensively than any so far, the variety possible in forms of managerial cognition. It picks up the emphasis in the previous reading on the significance of experience and "doing" in strategy-making. Experience shapes what strategists know; which shapes what they do; which in turn shapes their subsequent stock of experience. The reading identifies various emphases in categorizes research on cognition, identifying cognition in terms of confusion, information processing, mapping, concept attainment, and construction.

Cognition as confusion emphasizes judgmental biases in decision-making. For example, seeing the problems in terms of one's own background and experience (see insert for a comprehensive list of such biases). Cognition as information processing emphasizes biases due not to individual cognition, but to the collective system for processing information in an organization. For example, the filtering of information as it moves up through the hierarchy. Cognition as mapping and cognition as concept attainment both emphasize the dependence of cognition on mental models or maps. The former focuses on the consequences of using such mental structures to drive inference and action; the latter focuses on how such mental structures come about in the first place. The term "concept attainment" is chosen to signify how a strategy (concept) is arrived at (attained). It is argued that this occurs through pattern recognition and two fundamentally different sets of mental processes: verbalization (right side of the brain) and spatial reasoning (left side of the brain). Cognition as construction emphasizes the interactive nature between cognition and the information being processed, that there is a mutually constitutive relation between our understanding of the world and the processes and models by which we try to understand it.

The reading concludes by arguing that an organization needs to work with a repertoire of frames, so that biases will be made explicit and the organization's mental world does not become hermetic. More fundamentally, it is concluded that managerial beliefs are crucial in identifying what the organization needs to address, and how (because its environment is socially constructed), and that symbolic action will be important in communicating these beliefs.

Discussion Questions

1. What insights does this reading offer with respect to the use of long-term, strategically-relevant criteria by top-level management to evaluate the performance of lower-level managers and their units?
The question asks students to address the nature of strategic control in the light of the reading. Strategic control significantly emphasizes subjective judgments (because it involves projecting well into the future) and thus will often involve intuitive evaluation criteria. This implies the need to attend to the possibility of judgmental biases and narrowness in cognitive mapping. That is, quality strategic control typically requires high levels of cognitive diversity among top-level managers, such as to capture differences in beliefs about cause-effect relationships and desired outcomes among both top- and lower-level managers' preferences. It will also require rich exchanges of information between top- and lower levels of management, and the understanding of strategic context that strategy will reflect, all of which depends on the collective system for processing information.

2. Towards the end of the reading, the authors declare that " 'On the one hand, on the other hand' is hardly the best route to decisive action." What are the authors getting at and what solutions do you propose?

The authors are drawing attention to the dilemma of a possible trade off between cognitive diversity and focus in decision-making. Thus, diversity impedes arriving at a decision, whereas the absence of diversity increases the chances of groupthink (embarking on a course of action without really

questioning underlying assumptions). The previous reading touched on this; and the Eisenhardt reading in Chapter 5 did even more so, refuting the inevitability of such a trade-off through its identification of the possibility of having both collective decision-making and quick pace. Some specific “frame-breaking” techniques for achieving this were identified in that reading (e.g. devil’s advocacy, scenario planning). Dialectical inquiry (thesis, antithesis, synthesis) is another.

CHAPTER 8: ORGANIZATION

MINTZBERG, "THE STRUCTURING OF ORGANIZATIONS"

Summary of Reading

Management theory has evolved from “one best way” to “it all depends.” This reading argues that a third approach, “getting it all together”, is better. This means that elements of organizational design should logically configure into internally consistent groupings.

Six basic parts of the organization

Operating core: the people who perform the basic work.

Strategic apex: top management, which oversees the whole organization.

Middle line: a hierarchy of authority between the operating core and the strategic apex.

Technostructure: staff which plans and controls the work of others.

Support staff: staff which provides internal services to others.

Ideology: the traditions and beliefs which distinguish an organization from other organizations.

The organization is also subject to internal influencers (organization members) and external influencers (unions, regulators, suppliers etc.), whose actions and interactions constitute organizational politics.

Six basic coordinating mechanisms

Mutual adjustment: coordination through informal communication.

Direct supervision: one person coordinates by giving orders to others.

Standardization of work processes: the direct specification of the content of work (procedures).

Standardization of outputs: specification of results (usually manifested as financial targets).

Standardization of skills: standardizing workers by teaching them a body of knowledge (typically takes place outside the organization, {e.g., in a professional school}.)

Standardization of norms: achieving coordination by sharing a common set of beliefs.

Essential parameters of design

Design of the individual positions:

Job specialization: the number of tasks in a given job, and the worker's control over those tasks.

Behaviour formalization: the extent to which work content is written down.

Training: the use of formal instructional programs for skill and knowledge transfer

Indoctrination: programs and techniques used to standardize norms.

Design of the superstructure:

Unit grouping: how positions are combined into units, and those units into larger units; boils down to either *functions* or *markets served*

Unit size: the number of positions (or units) contained in a single unit.

Design of linkages:

Planning and control systems: used to standardize outputs; *action planning* is the specification of the results of actions before they are taken, whereas *performance control* is the specification of the desired results of whole ranges of actions after the fact.

Liaison devices: mechanisms used to encourage mutual adjustment; *liaison positions* directly coordinate the work of two units but have little formal authority, *task forces* are temporary groups designed to bring units together, *standing committees* are permanent groups designed to bring units

together, *integrating managers* are liaison personnel with great formal authority, and a *matrix structure* is designed to formally balance between two or more bases of grouping (e.g., functional and market).

Design of decision-making system:

Decentralization: the diffusion of decision-making power; *vertical decentralization* is the delegation of formal power down the hierarchy to line managers, *horizontal decentralization* is the delegation of formal power outside the hierarchy to non managers, *selective decentralization* is the dispersal of power over different decisions to different places, and *parallel decentralization* is the dispersal of power over the same kinds of decisions to the same place (e.g., all division managers have the same set of decision powers).

Situational factors

Age: in older organizations, the jobs are more specified (i.e., formalized); organizations in older industries have organizations that are more formalized.

Size: in larger organizations, the jobs are more specified (i.e., formalized); larger organizations are more specialized and have a greater proportion of administrative personnel; larger organizations have units that are larger, on average.

Technical system: technology that controls the work of the operators leads to specified jobs and bureaucratic structure; complex technology leads to larger, more professional support staff. That staff tends to get more decision-making authority. The use of liaison devices goes up; automating the operating core lets the management structure be more organic, less bureaucratic.

Environment: fast-moving environments are associated with organic structures; complex environments are associated with decentralization; diverse markets lead to market-based divisions; bad times lead to temporary centralization of an organization's structure; if the environment has a lot of diversity, the organization is encouraged to distribute decision-making authority in a diverse way.

Power: if an organization is controlled by outside forces, it will become bureaucratic; if there is conflict among the outside forces, there will be more politics internally, and vice versa; managers adopt some organization structures because those structures may be fashionable. This will sometimes happen even if that structure is the wrong one for that firm.

The configurations

A limited number of configurations can help explain much of what is observed in organizations. There are seven pulls emanating from the six parts of the organization, plus politics: *pull to lead* (strategic apex), *pull to balkanize* (middle line), *pull to professionalize* (operating core), *pull to rationalize* (technostructure), *pull to collaborate* (support staff), *pull together* (ideology), and the *pull apart* (organizational politics)

Depending on which pull dominates, the organization is drawn to a particular design configuration.

Entrepreneurial organization: relies for coordination on direct supervision; dominated by the strategic apex; no formalization; operates in dynamic environment.

Machine organization: prime coordinating mechanism is standardization of work processes; consequently, key part of the organization is the technostructure; very formalized; environment tends to be simple and stable.

Professional organization: its key, the operating core, is made up of professionals who coordinate using standardization of skills; training occurs mainly outside the organization; stable yet complex environment.

Diversified organization: is really a set of independent entities (usually divisions) connected by a loose administrative structure; the key part is the middle line who are coordinated using standardization of outputs (usually financial outputs).

Innovative organization: the highly skilled support staff succeed in collaborating with other parts of the organization, becoming the key part; coordination is achieved using mutual adjustment; complex and dynamic environments.

Missionary organization: so called because of its members' identification with its *mission*; ideology, achieved through standardization of norms, is the key part; not very formalized; tend to be old (it takes time to build an ideology).

Political organization: is dominated by politics; has no particular key part or prime coordinating mechanism.

Discussion Questions

1. *How much does the “getting it all together” approach really add to the “it all depends” approach?*

It adds quite a bit. The contingency (or it all depends) approach says that you should design your organization to fit environmental contingencies; e.g., if the environment is turbulent, you should have an organic structure. The configuration (or getting it all together) approach says many design elements actually go together, i.e., they should not be picked individually. A decision to build a machine organization is really a decision to put many elements together—narrow (rather than broad) job specialization, action planning (not performance control), centralized (not decentralized) decision-making, many small units (instead of a few larger units), functional (as opposed to market-based) grouping. Everything interrelates and fits (or should).

2. *What's your assessment of the author's definition of ideology?*

Some students will question Mintzberg's definition of ideology. He calls it “a strong culture”, encompassing the traditions and beliefs which (1) distinguish an organization from others and (2) infuse life into its “skeleton.” Critics will wonder why he feels it necessary to introduce a concept in addition to the already-familiar ‘culture’. If a firm has a strong culture, then it has an ideology. But what if it has a weak culture? Does that mean it has a weak ideology, or *no* ideology?

3. *What is your opinion of the idea that the term “bureaucratic” applies to any structure that relies for coordination on any form of standardization?*

Students will find this a bit odd. The terms “bureaucracy” and “bureaucratic” have negative connotations, so few people will question the use of the terms with regard to the machine organization. This will probably also be true for diversified organizations, which tend to be large and formalized. But this assertion implies that professional organizations and missionary organizations, which rely on standardization of skills and norms, respectively, are bureaucratic, too. Many students will question this. But it is true that professional standards can be very strict, and organizational norms can be very strict. So those two types of organizations can be as restrictive as organizations burdened by many rules.

4. What is the distinction between training and indoctrination?

Training is aimed at imparting skills or knowledge. It is a key design parameter in professional organizations. It is a substitute for formalization in obtaining standardized behaviour. Indoctrination, by contrast, is aimed at standardizing norms. It is a tool for socializing organization members, and is usually more psychologically intense than training. It, too, is a substitute for formalization, in this case the standards being internalized as deeply rooted beliefs.

5. In what sense are function and market the only two real bases for unit grouping?

Functional grouping, based on what is done in the work process, is a familiar basis of unit grouping. It is always available to the organizational designer. So the root of this question is whether or not market grouping is indeed the only other basis. Mintzberg mentions three possible bases—product, client, and geographical area. His argument is that each of these is simply a surrogate for market. Products are targeted for particular markets. Clients, in the aggregate, are the market. And geographical areas are markets. So, market is the only other basis for grouping.

6. How does action planning differ from performance control?

Action planning specifies the actions of workers *before* they do them. It is an important design parameter in machine organizations. Performance control specifies desired outcomes, and leaves the necessary actions up to the workers. It is an important design parameter in diversified organizations.

7. How do the concepts of liaison positions and integrating managers differ?

Liaison positions are considerably weaker than integrating managers. Liaison positions are jobs created to coordinate the work of two units. Those who serve in them must use their powers of persuasion and negotiation to bring the two sides together. Integrating managers have formal authority over the units they link. They are liaison positions, with the addition of formal authority.

8. What is the distinction between vertical and horizontal decentralization?

Decentralization means the diffusion of decision-making power. Vertical decentralization means that formal power is diffused by top managers to lower-level managers. Horizontal decentralization is the diffusion of either formal or informal decision-making power to non-managers, such as operators, analysts, and support staffers.

9. What is the distinction between selective and parallel decentralization? How useful is this distinction?

Selective decentralization refers to the dispersal of power over different decisions to different places. An example would be giving the organization's staff attorneys power to make legal decisions, while giving its real estate experts the power to make real estate sale or purchase decisions. Parallel decentralization means the dispersal of power over various decisions to the same place. The best example is the position of division manager in a diversified organization. Each division manager is given the same set of decision-making powers—e.g., how much can be invested, how much can be granted in pay increases, the amount of latitude in business planning, etc.

10. *What are the implications of the “age and size” hypotheses?*

The implications are straightforward—as an organization gets older and larger, it gradually becomes a machine organization. It is characterized by the dominance of standardized work processes (formalized rules) and the prominence of the technostructure (which writes the rules). The rules allow the organization to have larger units. Lastly, the organization is more specialized. All of this adds up to machine organization.

11. *What are the implications of the five environment hypotheses, taken as a whole?*

The more difficult is the environment, the more adaptable must be the organization. Adaptability means organic (the opposite of bureaucratic) structure, i.e., coordination is not based on standardization. It also means the dispersal of decision-making power to places closer to where the decision should be made, i.e., decentralization. And it means being "differentiated," i.e., divided up in ways as complex as the environment, including specialized divisions for specialized markets. The one hypothesis which doesn't fit these implications is the one which says that bad times lead to temporary centralization of an organization's structure. This means that when things go wrong, top management takes the reins a bit more tightly. The quickest responses can come from organizations run by one person, or a small number of people, and this is frequently what is needed in a crisis.

12. *How can fashion affect the choice of structure? Is this good or bad?*

Organizational structure, like other aspects of management, has its fads and fashions. A few years ago, matrix structure was very fashionable. Many organizations adopted a matrix form, even though it was not appropriate for them. Today, many organization designers denigrate formalization, even though it is widely recognized that rules can be very effective in the proper circumstances. Organization design should be based on the situational factors of age, size, technical system, and environment, and on how the parameters fit together into a proper configuration.

13. *What is your opinion of the "seven pulls on the organization"?*

Students will differ on the usefulness of the pulls concept. Some will say that it adds little to the seven parts and six coordinating mechanisms discussed earlier in the reading. Others will argue that it is these pulls that lead the organization to finally end up in one configuration or the other. They are the driving forces behind the formation of configurations.

14. *How can the operating core of an entrepreneurial organization be organic?*

The term "organic" has positive connotations, and is usually reserved for describing organizations whose workers have lots of freedom and decision-making power. These attributes are not typical of entrepreneurial organizations, whose strategic apexes tend to reserve most power to themselves. But Mintzberg uses the term as the opposite of bureaucratized. In that sense, the entrepreneurial organization is organic, since it has no standardization. The entrepreneurial organization does not rely on any form of standardization for coordination; its prime coordinating mechanism is direct supervision.

15. *In what sense is the diversified organization not a complete structure?*

The term “diversified organization” applies to only part of the structure of such firms. It describes only the structure of the overall corporation. It does not describe the structures of the various divisions. In theory, each division could have a unique structure. (In practice, they tend to be machine organizations.)

GALBRAITH, “STRATEGY AND ORGANIZATION PLANNING”

Summary of Reading

Recent models of organization planning convey two key ideas: (1) organization is more than just structure, and (2) all the elements must “fit” to be in “harmony” with each other. Also, successful strategy requires a fit between strategy and organization. The organization planner must aid management in choosing an appropriate strategy for the existing organization, or a new organization for the new strategy.

Strategy and organization

Recent work has illuminated how different strategic change patterns lead to different structures, systems, and cultures. The key is the organization having a centre of gravity or driving force. The centre of gravity of a company depends on where in the industry supply chain the company started.

This chain has six stages:

- Raw material extraction
- Primary manufacturing
- Fabrication of commodity products
- Product production
- Marketing and distribution
- Retailing

The first three stages are called “upstream,” the last three “downstream.” The upstream stages add value by reducing the variety of raw materials into a few commodities. The downstream stages add value by producing a variety of products to meet customer needs. This downstream value is added through advertising, product positioning, marketing channels, and R&D.

The upstream/downstream distinction is important because of the fundamental differences in success factors, management experiences, and organizational forms; these differences are rooted in where the company began in the chain. Here are some of the differences:

Upstream	Downstream
Standardize/Homogenize	Customize/Segment
Low Cost Producer	High Margins/Proprietary Positions
Process Innovation	Product Innovation
Capital Budget	R&D/Advertising Budget
Technology/Capital Intensive	People Intensive
Supply/Trader/Engineering	R&D/Marketing Dominated
Line Driven	Line/Staff
Maximize End Users	Target End Users
Sales Push	Market Pull

“Companies can be in the same industry but be very different because they developed from a particular stage of the industry . . . The firm develops an integrated organization (structure, processes, rewards, and people) which is peculiar to that stage and forms the centre of gravity.”

Strategic change

The first strategic change that an organization makes is to vertically integrate within its industry. This does not change the centre of gravity because these forward or backward stages are operated for the benefit of the centre of gravity. (These concepts are illustrated using the paper industry.)

One of the first diversification moves made by a vertically integrated company is to sell by-products from the points along the industry chain. This changes neither the industry nor the centre of gravity.

Another strategic change is diversification into new industries but at the same centre of gravity. This is called “related diversification.”

A third type of diversification is moving into new industries and new centres of gravity, but maintaining some link among the various businesses (e.g., a primary producer of paper products, which owns woodlots, moving into wood products and wood by-product chemicals). This is called linked diversification.

A final type of strategic change is to diversify into unrelated businesses. This would involve moving into new industries and different centres of gravity, but with little relation among the businesses.

A last possibility for change is for the firm to remain in the same industry but change its centre of gravity in that industry. An example would be a chemical company’s moving downstream into the manufacturing of higher margin, proprietary products.

Strategy, organization, and performance

Here is the current view of the relationship between strategy and structure:

Strategy	Structure
Single business	Functional
Vertical byproducts	Functional with profit centres
Related businesses	Divisional
Linked businesses	Mixed structures
Unrelated businesses	Holding companies

There has been no work done on the structures, or performance differences, that result from changes in centre of gravity. But there is evidence about the effects of the other structures on economic performance.

Using return on equity, the highest performers are the related diversifiers. This may be because of the industries they are in, or it may be because they have learned a set of core skills and know how to design an organization at a particular centre of gravity. In other words, they get a diversified portfolio of businesses, but each with a system of management and an organization that is understood by everyone.

Unrelateds have to learn both new businesses and how to operate at a new centre of gravity. The latter is the most difficult to accomplish.

The poorest performers tend to be vertically integrated by-product sellers. These companies make up “Smokestack America.” They have done poorly because their organizations were set up for upstream stages, and they were unable to change for downstream businesses.

It appears to be very difficult to change centres of gravity, because this requires dismantling of the power structure, rejection of parts of the old culture, and all-new management systems. Related diversification works for exactly the opposite reasons—it involves minimal changes in power structure and accepted ways of doing things. Changes in centre of gravity usually occur by new start-ups at a new centre of gravity, rather than a shift in the centre of established firms.

Most research has been done on diversification. Little has been done on centre of gravity change.

Discussion Questions

1. *Exactly what does the concept of “centre of gravity” mean, and how useful is it?*

Galbraith says that the centre of gravity is similar to Tregoe and Zimmerman’s concept of “driving force.” The driving force of a business is the area that governs whenever a strategic decision is made. For example, in a company with a driving force of sales growth, any important decision would be made on the basis of how it affected potential for sales growth.

Centre of gravity is a little more specific than driving force. Galbraith identifies six stages in the industry chain. A firm’s centre of gravity is the stage on the chain that is most important for it, the stage where it had its initial success, where it has learned the most lessons. For example, a firm might be primarily a raw material extractor, even if it has some primary manufacturing capability. Or it might be primarily a retailer, even though it has some product producing capability.

Students will differ on how useful the concept is, but it seems to accurately characterize firms, especially when the coarser concept of “upstream/downstream” is used.

2. *The author says that what distinguishes upstream from downstream companies is differences in “factors for success, lessons learned by managers, and the organizations used” Rank order these by importance.*

Of course, there is no hard-and-fast answer to this question. Some students will argue that regardless of management and organization, the factors for success in the industry will determine effectiveness. Others will argue that skillful managers can “read” environments and understand success factors, or that managers who learn the wrong lessons can fail to adapt to changing environments. This makes lessons learned by managers the most important factor. Still others will assert that organizations are either adaptable or not, depending on their structure, and so organization is the most important factor.

3. *How do related and linked diversification differ?*

These two forms of diversification are the same in that both involve moving into new industries. How they differ is in the way centre of gravity is handled. In related diversification, companies operate at the same centre of gravity in both their old and new industries. An example would be *Procter and Gamble*, which diversified from paper into soap and food, but was a marketer/distributor in all three industries. In linked diversification, firms enter their new industries at a different centre of gravity from their original one. A good example here would be Union Camp, which diversified paper into wood products and chemicals; in its original industry, it was a primary manufacturer, but in the wood products industry it was a raw materials extractor, and in chemicals it was intending to operate from a product producer centre of gravity.

4. *How can a company really expect to change its centre of gravity?*

As the author points out, this is extremely difficult to do. A centre of gravity shift requires a dismantling of the current power structure, rejection of parts of the old culture, and establishing all-new

management systems. The management lessons learned at the old centre of gravity are worse than useless—they may actually impede progress at the new centre of gravity. The structure that was so successful previously will most likely be inappropriate now. And the success factors that loomed so large at the old centre of gravity may now be less important.

There are really only two ways to succeed at centre of gravity changes. The first way, mentioned by the author, is to establish a start-up subsidiary at the new centre of gravity, and then invest and divest in such a way that the overall firm ends up at the new centre. The other way is to proceed incrementally, and over a long period of time, until the wrenching changes have been accomplished.

5. *Which explanation do you prefer, and why, for the success of related diversified companies?*

- a. They are all downstream companies in high margin businesses.
- b. They can apply skills learned at a centre of gravity in one business to the same centre of gravity in another business.

Students will probably differ on this question. Some will argue that it is the high margin businesses in which the “relateds” happen to compete. They may argue that if one could control for industry, there would be little difference between the relateds and the unrelateds. Of course, this reasoning begs the question, mentioned by Galbraith—“If the unrelateds are good acquirers, why don’t they acquire high-margin businesses?”

The second choice above will get its advocates. They will argue that the relateds would excel regardless of which industry they entered, because by staying at the same centre of gravity, they can apply all the managerial and organizational lessons they learned in their original business. This explanation gets around the problem of which businesses are acquired, because it is centre of gravity that is important, not industry. If upstream companies diversified into other industries, but in upstream stages, they would do well. The evidence shows that most upstream companies tried to diversify into downstream stages, and this presented them with control and organizational problems.

6. *How does change in centre of gravity differ from diversification?*

Diversification means switching to a new industry. Change in centre of gravity may occur with or without diversification. It involves moving the primary focus of the company from one industry chain stage to another. It is more than mere forward or backward integration. In trying to change its centre of gravity, a firm has to alter the way it sees the world and approaches the world. It requires cultural, organizational, managerial, and political change.

HERBER, SINGH, & USEEM, “THE DESIGN OF NEW ORGANIZATIONAL FORMS”

Summary of Reading

The reading addresses technology-driven organizational change, i.e. the emergence of new organizational forms in response to the discontinuous technological breaks of recent years. These new forms have been designed to balance stability and change, building a firm’s future while exploiting what it has done in the past, and developing the capability to repeatedly recombine established competencies such as to avoid being locked into any particular arrangement of competencies. These new forms are designed through reconfiguring six fundamental elements of organizing: goals (and their implicit time frames), strategies, authority relations, technologies, markets, (and the relationships they imply), and processes (the links among the other five elements) e.g. recruitment and budgeting. The

authors identify six distinct organizational forms that differently configure these six elements: *virtual*, *network*, *spinout*, *ambidextrous*, *front-back*, and *sense and respond*. The following table summarizes each type in terms of how it configures these six elements. This table can be usefully supplemented by that given by the author in their conclusions section: a 2x2 matrix to identify the appropriateness of a given type in terms of whether goals and authority relations are old or new, and technologies and markets are old or new. The reading closes by emphasizing that hybrids of these types are likely and that every organization must tailor its choices to its circumstances.

Organizational element	Organization goals	Strategies	Authority relations	Technologies (for information communication and production)	Markets	Processes
Organizational form						
Virtual organization: Employees, suppliers and customers are geographically dispersed but united by technology e.g. Dell, Amazon	De facto integration without the liabilities and inflexibilities of ownership; boundaryless information sharing	Minimize asset commitments, resulting in flexibility, low cost, fast growth	Relatively decentralized; lateral relations become relatively more important than vertical for day-to-day work; authority as a coordinating device becomes focused on controlling for outcomes rather than processes;	Distributed information technologies (e.g. Internet) are key	Buy and sell products and services anywhere rather than at a direct point of contact, therefore tend to be mass markets	Maximally electronic based: elimination of space and time boundaries enables acting in concert
Network organization: organized set of relationships among autonomous ("external network" e.g. textile industry in Prato, Italy) or semi-autonomous ("internal network" e.g. Asea Brown Boveri) for a complete product	Adaptive flexibility Coordinated and disciplined action but which is not directed from the apex of a hierarchy	Value chain is coordinated by a central unit acting as aggregator of independent units	Aligned but loose relations, e.g., heavy reliance on lateral communication and shared mindset	Similar to virtual but will focus on managing the interfaces between the work of the different units to ensure product integration	Markets that favour variety of products (which rewards adaptive flexibility in product development and production) e.g. fast-moving &/or high-cost products; therefore tend to be segmented markets	Very diverse, with each unit determining its own internal processes
Spin-out organization: semi- or fully independent business seeded from a parent organization e.g. Thermo Electron	Create new independent organizational contexts	Maximize entrepreneurship: build new businesses around promising technologies and services, with firm acting as venture capitalist, protective	Evolve from hierarchical to historical	Evolve from parent's	Reward novelty, especially in expensive and emergent technologies; therefore tend to be emergent markets	Initially will replicate parent's (especially in support activities); later financial motivation and discipline

		incubator, proud mentor				will be emphasized
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Organizational element	Organization goals	Strategies	Authority relations	Technologies (for information communication and production)	Markets	Processes
Organizational form						
Ambidextrous organization: established and emerging business flourish side by side in the same organization e.g., Hewlett Packard	Simultaneous dexterity in both established operations and discontinuous innovation	Optimize entrepreneurship and efficiency: build new businesses around promising technologies and services while continuing to invest in established businesses	Reconcile vertical and lateral: active dialogue between managers in established hierarchy and those at the forefront of new ideas	Evolve from parent's	Both well-established and emergent markets	Emphasize sharing of knowledge between those wedded to established and emergent ideas
Front-back organization: organized around customers, with all company functions placed at the back to serve the front e.g. professional organizations such as health-maintenance organizations and consulting firms	Fast, responsive, customized solutions	Optimize across deep specialist expertise and integrated customer solutions	Centreless organization: reconfigurable: front-line commands the resources to respond swiftly and precisely to evolving customer needs for the duration of customer contract	Highly focused (to capture specialist learning) but open access (to enable reconfiguration)	Typical of service industries where distinctive relationships are valued because every customer solution is highly customized	Emphasize attainment of deep specialized expertise that can be repeatedly synthesized in unique teams
Sense-and-respond organization: organized around customers where their demands are highly volatile e.g., Westpac Banking Corp.	Adaptability	On-going reconfiguration	Highly fluid	High premium on open access (to maximize reconfiguration possibilities)	Where the constituents of customer needs are highly fluid	Place a premium on customized novelty but devalue cultivation of deep specialist expertise

Discussion Questions

1. *What do you think is the central idea of this reading?*

Answers to this question are likely to vary, but the notion of configuration is surely a guiding idea in this reading. Though the organizational elements identified are fewer in number than the Mintzberg reading in this chapter, the emphasis on how the same generic organizational elements can generate distinct and novel organizational forms reiterates the central message of that reading. What sets this reading apart, however, is that all of the forms it identifies are relatively novel – therefore, the central idea might be rendered as “configuration for the 21st century.”

2. *Why do you think the authors have identified so many new organizational forms?*

One significant reason for this could be that the discontinuous technological breaks of recent years have over-turned many long-established notions of organizing. As noted in the Mintzberg reading in

this chapter, it is a striking finding in organizational research that the structure of an organization reflects the age of the industry in which it operates. This idea that notions of organizing are shaped by historical circumstances prevailing at the time they were originally fully formulated is also evident in the discussion of different schools of strategy in the Mintzberg & Lampel reading in Chapter 1. Thus one reason for the diversity of new forms could be argued to be that firms are still trying to grasp the form most appropriate to changed circumstances. Although the reading cites examples across a wide range of industries, all of the organization types which these examples illustrate have in common a reliance on information industry technologies of one form or another, and that enables dispersed and adaptive, rather than centralized and rigid, operations. While this reduces the scope of variety in circumstances that will shape each type, considerable variety in context remains. Hence, while relatively few organizational forms can be devised to address these changed circumstances, several types of new organizational forms (or indeed hybrids of these) are likely to be viable depending on the particular circumstances.

3. Do you think managers are likely to find the identification and discussion of new organizational forms useful?

The discussion provides a language that defines the different approaches to developing new organizational forms. It is important to note that each form is grounded in an example and is not just theoretical. Moreover, each form is designed using well established organizational elements. The identification of distinct forms illuminates the scope for a managerial choice. It therefore helps managers to structure how they should think about organizing in the 21st century. Managers could use a table summarizing the different types, such as that given above, as well as the table in the reading as a tool to become more aware of their own approach and the alternatives available to them. It could also be valuable in selecting a consultant to help in designing a new form for the firm: without it, an organization may unwittingly buy into a particular approach to organizing.

CHAPTER 9: TECHNOLOGY

LAMPEL & MINTZBERG, “CUSTOMIZING CUSTOMIZATION”

Summary of Reading

Standardization of taste, design, production and distribution, the authors argue, has been a fundamental tenet of business for the last 100 years or so. But has it had its day? This reading focuses on the opposite of standardization - customization - and questions the extent to which this is being promoted as a “magic bullet”. Rather, customization and standardization should be seen as poles of a continuum, with all strategies somewhere in between. In focusing on customization, this reading picks up the Herber et al reading in the previous chapter, where it was similarly viewed as a significant response to new technological and economic forces.

A logic of aggregation underpinned the spread of standardization for much of industrial history, with an emphasis on economies of scale and the targeting of shared (or mass) , relatively stable and simplified customer characteristics. The mass production and mass distribution firm became singled out as exemplary, and its adoption was propagated by business schools. The only compromise was to recognize distinct segments, though doing so rarely threatened economies of scale in production (and therefore the logic of aggregation itself), because of the size of segments.

In contrast, a logic of individualization underpins customization. This logic is essentially craft-based (and therefore pre-dates the Industrial Revolution), and continues to characterize such industries as jewelry-making and fine dining. However, it also characterizes capital goods industries. In contrast to standardization, customization implies direct relationships with the customers (and not an abstraction of them such as “segment”), producing to order, and an intimate interface between marketing and design.

Clearly, there are benefits to both standardization and customization. But there are also costs. In trying to optimize across these benefits and costs, it makes sense to begin focusing a customization initiative on downstream activities (it may be sufficient to implement it only in the stages closest to the customer, e.g. delivery or financing). In contrast, standardization begins upstream. Thus, strategies range from pure standardization to pure customization (see Figure 9-1 in the text for the identification of 5 distinct strategies, each of which progressively customizes a stage in the value-added chain, beginning with distribution). *Ford’s Model T* was an example of pure standardization (target group of buyers and production scale were as large as possible, and the product was distributed commonly to all; thus the buyer adapts his needs to the product or goes elsewhere); next is segmented standardization (e.g., proliferation of car models, which makes variety available, therefore customizing distribution, but not at the individual customer’s request); next, customized standardization (e.g., allowing car buyers to choose optional extras, therefore customizing back to assembly, but not to fabrication); next is tailored customization (a prototype, and therefore significantly standardized design, is presented to the individual buyer and then adapted to the buyer’s needs); and finally there is pure customization (the customer is deeply involved in the design process and all stages thereafter). The authors conclude that there is a dominant trend in design, production, and distribution today, that it is toward customized standardization, and attributes this to new information technologies.

Discussion Questions

1. Toward the end of the reading, the authors assert that for individualization (i.e., customization) to be possible, one must be able to “uncouple formerly tight relationships between manufacturing and design.” What is the rationale that informs this statement?

The rationale is that customization implies variation or, at the extreme, reconfiguration, of value-adding stages. For example, the strategy of segmented standardization varied the nature of distribution (e.g., certain dealers for certain models). However, if such variation led to the total sacrifice of economies of scale in production, it would be forgone, because such variation could be uncoupled from production (whether through economies of scale being largely exhausted at a point well below the level of production across all models, or perhaps due to different models being built from the same platform). At the extreme of customization, the very product is unique, and the value-chain is reconfigured each time to deliver a product, as in, for example, the front-back organizations discussed by Herber et al in the previous chapter. As also noted in that reading, this implies modular organizing, which is another term for loose coupling.

2. Do you agree with the authors' conclusion that there is a dominant trend toward customized standardization?

Here again, there is a strong connection with the Herber et al reading in Chapter 8. The present authors ground this assertion on the possibilities and imperatives of new information technologies – the very same phenomenon that is central to the analysis of new organizational forms in the Herber et al reading. As is clear from that reading that ability to reconfigure organizational elements is what generates new organizational forms, and that new information technologies are key in allowing such reconfiguration. Switching to the present reading, we can argue that, for example, distributed computer-aided design technologies allow for repeated and rapid changes in design that can be followed remotely by dispersed collaborators. Thus design, manufacturing, and marketing people can collaboratively and iteratively reconfigure a design to strike the best balance between cost efficiencies (i.e., standardization) and buyer appeal (i.e., customization). Note that all such technologies are significantly standardized in their structure and user format, and in facilitating the rapid generation and evaluation of different product designs across firms in quite different industries in themselves represent a form of customized standardization.

3. What does the reading have to tell us about the importance of understanding business history?

In its discussion of the “logic of aggregation”, the reading draws our attention to the role of historical circumstances in shaping business beliefs. In this case, we see practical lessons in the importance of scale economies in the early years of the 20th century incorporated into the mindset of the newly emerging management profession, and propagated by management thinkers and business schools. This re-iterates acentra; a point in the Mintzberg et al reading in Chapter 7; the socially constructed nature of environments. The sharing of ideas through interaction between managers, as well as the influence of business schools and management thinkers on management thought, shaped what the (especially Western) business environment was understood to be and what were appropriate behaviours, and firms and their rivals functioned according to this mindset. However, as the Mintzberg et al reading notes, the grip of this mindset was precisely what made Japanese industrial success so dramatic: many in the West believed that quality came at the cost of shorted and interrupted production runs, i.e., loss of scale economies. In the present reading, the authors counsel against a bandwagon effect around customization similar to what occurred around standardization. Thus, knowledge of business history, and the articulation of distinct alternatives that flows from this, are important in properly informing thinking on the appropriateness of a given strategy.

DAY & SCHOEMAKER, “AVOIDING THE PITFALLS OF EMERGING TECHNOLOGIES”

Summary of Reading

This reading addresses the important question of why well-established firms can fail, and asks it with respect to a cutting-edge phenomenon: emerging technologies (i.e., science-based innovations that have the potential to create a new industry or transform an existing one) – and identifies four related (and sequential) answers: delayed participation, sticking with the known technology, reluctance to commit fully, and lack of persistence.

Delayed participation

This is the “watch and wait” response to the high uncertainty of the business implications of emerging technologies. A distinguishing factor between firms who are merely aware of the phenomenon, and those who are actually anticipating its effects, will be the presence of a credible champion for the emerging technology within the firm...someone who can make sense of the technology’s significance to the firm. Making sense solely in terms of what already exists or has been done in the past, i.e., the familiar, leads to an inappropriate framing of the opportunity technology offers. *IBM’s* experience with the personal computer is a good example of the consequences of delayed reaction to an emerging technology.

Sticking with the familiar

This is attributable to past success, reinforcing certain ways of problem solving, and/or the firm lacking in-house capability to appraise the emerging technology fully and/or a proprietary mindset driving interpretation. In each case, the established firm seeks to replicate its present way of doing business in evaluating the opportunity. Delayed reaction and sticking with the familiar are attributable to judgment biases that disfavour risk and ambiguity, and favour the status quo.

Reluctance to fully commit

Favouring modest or staged commitments may be attributed to at least five causes: cannibalizing an existing business; cognitive biases that limit the ability to see arguments contrary to prediction and encourages risk averse behaviour and a tendency to look at choices in isolation (together these biases result in the paradox of bold forecasts and timid choices); strict ROI criteria that investment in the new technology cannot meet in the short- to medium-term; focus on current customers whose needs the new technology doesn’t initially serve; and inability to manage the necessary stability in the established business with the instability (in how organizational elements are configured) posed by the new technology. The authors note that these impediments are typically simultaneously present and mutually reinforcing, and tend not to afflict new entrants (who will not be prisoners of an established configuration).

Lack of persistence

This describes the inability to forbear with adverse results. Yet exploiting the new technology will typically require several iterations of learning and failure, leading to missed forecasts and disappointed hopes. The irony is that the very firms that are overly committed to their established business (the sunk cost trap) will be quickest to pull the plug on the new one.

The foregoing identifies the hallmarks of failure of established firms; what follows explains that success in more positive terms than simply not committing any of the above pitfalls. Rather, established firms that succeed in exploiting the new opportunity will attend to signals from the periphery, build a learning capability, maintain flexibility, and ensure organizational separation.

Attending to signals from the periphery

Emerging technologies tend to originate in small peripheral markets with different and typically inferior performance needs when compared to the firm’s major customers. The firm needs to work hard

to appreciate early indicators, not dismiss the opportunity, and rather recognize the possibility of improving the technology's performance over time such that it offers the different performance attributes in addition to satisfactory levels of presently favoured performance attributes.

Building a learning capability

The information flowing from the periphery will be diverse and unfamiliar and perhaps seemingly absurd. Making sense of it requires encouragement for divergent viewpoints early in the process, a willingness to challenge deep-seated assumptions so as to avoid anchoring on the present, and continuous experimentation (where failure is not penalized) such that the possibilities of linking the technology to market needs are fully explored.

Maintaining flexibility: Balancing commitment and options

Pursuing some technologies may involve irreversible investments (which is how the Ghemawat and Pisano reading in Chapter 4 defined commitments); others, however, have significant optionality, i.e. investment is staged, and contingent on attaining defined milestones and resolving key uncertainties. Thus, it may be possible to pursue a technology while keeping your options open as to whether you fully commit to it. While optionality is most feasible in the early stages of exploration, the authors note that in practice the attempt to discern irreversibility may fail and consequently the attempt to maintain flexibility may result in the pitfall of reluctance to fully commit.

Organizational separation

Exploiting emerging technologies typically involves a quite different configuration of organizational elements when compared to an established business. Therefore, a separate organizational unit to take charge of the opportunity is advisable such that development cycles, returns on investment, linking to customers and other value creating and capturing elements may be fashioned distinctively. The ideal is that the separated venture can leverage the parent's strengths while remaining distinctive.

The authors conclude that involvement of senior management in setting the conditions for successful exploitation of an emerging technology is key, and that the four success factors summarized above will need to be tailored to the circumstances of both the company and the technology in question.

Discussion Questions

1. Drawing upon the reading, identify at least four major constraints on an established firms' ability to exploit new emerging technologies. What is an appropriate response to each constraint?

The following table gives a summary response to this question that usefully organizes the key ideas in the reading.

The constraint	The response
Resource dependence: customers effectively control resource allocation in well-run companies	Make the technology the responsibility of a self-sufficient organizational unit
Size of opportunity: small markets don't solve the growth needs of large companies	This organizational unit should initially be small relative to existing business units (because small wins will then be exciting)
"Unknowability" of application: failure is part of the process	Anticipate trial and error learning but also manage for costs (to ensure continuing resource availability to pursue key aspects about the technology and market as they gradually reveal themselves)
Performance supplied will not satisfy	Emerging technology-market linking searches

performance currently required by major customers of established firms	for new applications , not technical development (i.e. customers whose needs are not presently being served by established firms)
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2. *“The most interesting things happen at the edges of markets” might be summed up as a key insight of this reading. Why do you think this is true?*

This is true. All of the pitfalls and success factors that the reading identifies hinge on whether, and how, firms attend to events far removed from the established focus of firms and their major customers, and how established products meet established needs. Far removed from this – on the periphery – are market (not technological) innovations whereby mostly existing technologies are configured in such a way as to serve overlooked needs and overlooked customers. What makes this phenomenon one of central significance is that being at the periphery it tends to register weakly on established firms’ “radar screens”, leaving the field clear for start-ups unencumbered by a corporate past. But being on the periphery of an established industry means it has some connection to the value creation and capture possibilities for that industry; in particular, that the product that links technology to needs in a novel way can eventually enter the mainstream and dislodge incumbents. Crucial to this possibility is that there is a time lag in learning how to achieve the linkage between technology and need; and that even when they recognize it, established firms responses tend to be inertial. For example, when the personal computer first emerged it was really a toy, and in its early years could not be used in any of the established applications for computing but only in the new applications in which the attributes of microprocessor-based desktop computing were useful – i.e. personal (as opposed to big-business) computing.

3. *Are established firms who fail to exploit emerging technologies, that go on to undermine their established businesses, guilty of bad management?*

The initial answer to this question might be “of course!” because these managers have failed to ensure the sustainability of the company. But students should be led to a more sophisticated understanding of the causes of failure, and made to understand that this failure is in fact attributable to doing the right things but at the wrong time, or at least too unwaveringly. That is, good managers listen to their best customers, invest aggressively in new technologies to provide these customers with better products, carefully study markets, and allocate investment capital to innovations that promise the best returns. But succeeding in emerging technologies typically requires one *not* listen to their best customers, invest in lower-performing products that promise lower margins, and aggressively pursue small and new (rather than substantial and established) markets.

CHAPTER 10: COLLABORATION

BLEEKE AND ERNST, "COLLABORATING TO COMPETE"

Summary of Reading

Flat-out, predatory competition is over. Head-to-head competition is too exhausting financially, too depleting intellectually, and leaves companies too vulnerable. In its place, companies are learning they must collaborate to compete. Companies can selectively share and trade control, costs, capital, market access, information, and technology. Companies should compete only in those areas where they have an advantage or where they must compete to preserve power or capture value. Ability and willingness to collaborate is particularly important for companies that want to reach across borders.

The number of cross-border alliances is increasing. Some contributing factors are globalization, "Europe 1992", the opening of Eastern Europe and Asia, and the need to get foreign sales to offset high fixed costs. Trying to go it alone is too expensive, too time-consuming, and too likely to be ineffective. Yet only half of cross-border alliances succeed. Three themes emerge from a study of these alliances: companies are learning they must collaborate to compete; alliances between potential competitors represent an arbitrage of skills, market access and capital between them; and it is important to see cross-border alliances or acquisitions as a flexible sequence of actions, not as a "one-shot" deal. Success must be measured against the scarcest resources, including skills and access, not just capital. Willingness to learn from companies with a different approach is often the only way to succeed. Flexibility in terms of willingness to fine-tune the relationship is another hallmark of successful collaborations.

Because not all companies are equal, they benefit from trading the "chips" of market access, management skills, information and financing across borders. This global arbitrage takes place more slowly than it does in financial markets, but the mechanism is the same. "Each player uses the quirks, irrational differences, and inefficiencies in the marketplace as well as each company's advantages to mutual benefit." Successful alliance partners approach negotiations as win-win situations. They also build in mechanisms to resolve conflict, like strong boards and clarity about roles. Since the value of the "chips" will change over time, partners must maximize their bargaining power but be ready to renegotiate as needed. Predetermined timetables for evaluating the partnership are often helpful. (See the table in the text for a listing of Kenichi Ohmae's "Tips for Collaboration")

Cross-border alliances and acquisitions need to be seen as a sequence of actions, not "on-off" transactions. "Companies that take a purely financial, deal-driven approach to cross-border alliances and acquisitions usually wind up in trouble." This method helps build useful experience. It also helps build economies through integrating operations and eliminating overlapping functions.

Since things change over time, be ready to rethink the situation constantly. This is the only hedge against things going wrong, which is the rule, not the exception. Alliances

should be viewed as intermediate arrangement. Always be thinking about what's next. Since most alliances dissolve by having one of the parties buy it, think early on about your likely role as buyer or seller. Companies that can bring the most short-term benefit are also more likely to be long-term competitors. Therefore, if selling the alliance is not an option, a more complementary, but perhaps less synergistic, partner needs to be found at the outset.

Global companies will increasingly look like amoebas, “always changing shape, taking and giving with the surroundings, yet it always retains its integrity and identity as a unique creature.” When entering a new market, managers must ask how things are different and what it is they need to learn. They can help answer these questions by finding appropriate partners. “In the fluid global marketplace, it is no longer possible or desirable for single organizations to be entirely self-sufficient. Collaboration is the value of the future. Alliances are the structure of the future.” The result is very complex management with no standard approach possible. Firms must be slightly schizophrenic—maintain identity but stay open to different ways. Organizations wedded to the old ways and to standardization will be inflexible and confrontational, unable to work with the outside world. “These companies may survive because they are large and powerful, but they will cease to be leaders.”

Discussion Questions

1. What is your reaction to the authors' contention that “the days of flat-out, predatory competition are over”?

So much emphasis in strategy courses is placed on competitive strategy models that students may well be surprised to read a statement like this. It is important to realize that these authors (along with Prahalad and Hamel earlier) are invoking a different paradigm than the usual competitive strategy model. Porter's model of competitive strategy focuses on all the negative things that can happen in an industry, things like rivalry, supplier and buyer power, and threats of entry and substitutes. But Porter's other famous model, the value chain, points to the position taken by these authors—do the things competitively that you do better than anyone else, and either outsource or form alliances to do the rest.

2. What is the essential point behind the notion of “collaborating to compete”?

The authors put it succinctly: “Instead of competing blindly, companies should increasingly compete only in those precise areas where they have a durable advantage or where participation is necessary [In other areas] the best approach is to find partners that already have the cash, scale, skills, or access you seek When a company reaches across borders, its ability and willingness to collaborate is the best predictor of success.”

3. What is so important about willingness to team and to be flexible?

The authors claim that the only way for a firm to maximize its success in the global marketplace is to be willing to learn from firms that are very different. The implication is that the resulting greater variety and knowledge is what will give the firm its edge. This idea is consistent with the notion that learning and development occur at the “edges” of what already exists. Flexibility is needed for dealing with the ups and downs inherent in any relationship. The authors point out that it is very unlikely that an alliance will remain

exactly the same over its lifetime. Many things will change, including things like market demands, technology and the geographic scope of the alliance. They say that "the success rate for alliances that have changed their scope over time is more than twice that of alliances where the scope has not evolved. Alliances with legal or financial structures that do not permit change are nearly certain to fail."

4. What is arbitrage and why might it be a good metaphor for collaboration?

Arbitrage is the purchase of securities on one market for immediate resale on another market in order to profit from a price discrepancy. The analogy to cross-border alliances is pretty good. A North American firm with, say, good manufacturing technology, but with limited access to, say, an Asian market, "trades" its technology to an Asian firm with weak technology but good Asian access. In a sense, the North American firm has "purchased" its manufacturing technology on the North American market and "sold" it in the Asian market at a profit. For the Asian firm, the transaction is a mirror image of this.

5. What is the significance of a "one-off" transaction approach versus a "sequence of actions" approach?

The arbitrage discussed in the previous question is obviously not risk-free. Like all analogies, it is not perfect. One obvious problem is that when one buys a security in one market and then sells it in another, that is the end of it. The securities are now in someone else's possession and were used only to make the profit. In the case of a strategic alliance, the "securities" remain in the possession of the respective parties, they are shared rather than merely disposed of. So the relationship, unlike a stock sale, cannot be treated as a one-shot transaction. There will be evolution in the alliance over time, so there needs to be an ongoing, evolving relationship. This implies a thoughtful sequence of actions to improve and refine the alliance.

6. How important is "willingness to rethink"?

Because of the evolution mentioned in the answer to question 5, willingness to rethink is very important. The authors point out that the trouble is the rule and that the initial set-up may not be meaningful in a few years. To keep the alliance going, all partners must be willing to rethink the situation on an ongoing basis, and be willing to renegotiate changes as needed. Alliances should be considered intermediate strategic devices, and their participants should always be thinking ahead to what will come after the dissolution of the alliance. Since many alliances end with one or the other partner buying out the other's share, particular thought needs to be given to how the role of either purchaser or seller should be played. All in all, a willingness to think and rethink the alliance is very important.

7. What is your reaction to the amoeba metaphor?

It should be interesting to see how students react to this metaphor. The amoeba seems like too simple a creature to be interesting to students of business strategy. But the simplicity of the metaphor gives it its power. The essential point is that global corporations need to be simultaneously open and closed. They need to be open in the sense of being willing to learn, to share, to change, to interact with customers and organizations very different from themselves. But they must do all of this while

maintaining their integrity and identity, by maintaining their essential “cores” of competence and value-adding capacity.

8. *The authors say that “there is no single valid rule book for all markets.” What do you think of this?*

There may still be some die-hard students who believe that management is management, regardless of the industry. These authors make the point that many other authors have made in the past 15 years or so, which is that industries differ so meaningfully from one another that to say “management is management” is untenable. Even *within* an industry there may be great diversity among strategic groups. All of this becomes more salient when one adds cross-border relationships to the picture. It all adds up to the need to become familiar with the rules that exist in any given context. What is required, along with some useful models of strategy, is thoughtful management.

PREECE, “WHY CREATE ALLIANCES?”

Summary of Reading

This reading addresses the formation of *international strategic alliances* (ISAs). A particular concern of the reading is the importance of clear thinking about the overall strategic purpose that the ISA is to serve, and how this should be integrated into the existing strategy of the organization. To this end, the reading offers a structured way of thinking about ISAs (see Table 1 in the reading) – in terms of the *structure* it is to have (there is a variety of possible organizational forms), *functions* to perform (there is a variety of value-adding activities that the ISA could enable), and objectives (the contribution to the strategic direction and capabilities of the firm). The authors note that while ISAs are typically thought of just in terms primarily of structure, and secondarily in terms of function, important though both of these are, it is in terms of *objectives* that the ISA will have the greatest impact on the firm. In seeking to advance thinking in this area, a typology of six ISA objectives is identified: *learning*, *leaning*, *leveraging*, *linking*, *leaping*, and *locking out* (see Table 2 in the reading).

Learning as an ISA objective

The motivation is knowledge transfer about some value-adding activity that cannot be bought on the market (say, because of necessary tight coupling with other activities) and the development in-house of which would be relatively slow, inefficient, and costly.

Leaning as an ISA objective

The motivation here is to outsource activities that are not core to a firm, thus becoming “leaner”. This is a form of co-specialization between the two firms. Cost efficiencies and rapid, focused learning may result, but the outsourcing firm risks a loss of knowledge over the long term (to the extent that the outsourced activities are in fact relevant to the evolution of core competencies), breeding new competition (as the outsourcee may migrate up the value chain), and coordination inefficiencies due to geographic and organizational separation of activities that must ultimately be integrated in a product or service.

Leveraging as an ISA objective

The motivation here is the joint integration of individual firm strengths with those of a partner in order to achieve size and/or scope advantages. However, there are risks of combining two distinct hierarchies leading to hard-to-manage complexity, degradation in control and coordination, and a costly breakdown in the consensus underpinning the arrangement as competitive conditions unfold over the medium-term.

Linking as an ISA objective

The motivation here is changed vertical relations (the three previous ISAs addressed changing relations at the same stage in the value chain). Cooperation rather than confrontation with suppliers (for example, involving them in product design) leads to better information exchange and tighter coordination, ultimately leading to better and more cost-efficient products. A major risk is inertia, whereby the network of firm and suppliers become hermetic, such that the potential contribution of more innovative suppliers never arises or, even if this is recognized, unwinding the arrangements with existing suppliers may be costly and drawn out.

Leaping as an ISA objective

The motivation here is to leap competitive barriers through forming an ISA with a firm skilled in a very different business area, but one is complementary with the firm's existing line of business. Unlike the "learning" and "leveraging" forms, the desire to internalize the partner's capability is not a priority. The major risk lies in incompatibilities attributable to (sector, industry, national) culture-based differences in process and managerial style.

Locking-out as an ISA objective

The motivation here is to protect existing advantages, typically by thwarting a third party e.g., locking up access to distribution or supply channels. The major risks here are inviting regulatory scrutiny of an allegedly unfair arrangement, and breeding complacency in the partnering firms.

The reading concludes by noting that more than one of these objectives may be targeted simultaneously (e.g., the next reading focuses on American-Japanese learning alliances with suppliers – thus "linking-learning" alliances). The authors also re-emphasize the need to adequately define a primary objective for the alliance arrangement, to ensure the appropriateness of this with the firm's strategy, and assuming there is a good fit, and to ensure compatibility of the partner's alliance objectives.

Discussion Questions

1. What is an important contribution of this reading?

The reading emphasizes the significance of alliance success and clear thinking about the objective of the firms entering into an alliance; primarily your own firm, but also including the objectives of the other party. This is important because as, for example, the Mintzberg et al reading in Chapter 6 observes (in its discussion of strategic vision), managers' perspectives on the strategic purposes of an ISA profoundly affects the strategic positions the ISA will target, the programs (for example, for development or

manufacturing) which it will implement, and the products it will generate. Absence of clear thinking about objectives and the ISA is likely to either end up mostly serving the interests of the other party or beset by conflict and confusion, and thus waste the firm's resources. Note that the significance of the type of objective is also evident from the likelihood of each objective being associated with a distinctive organizational form for the alliance. For example, a learning alliance will likely require much more intensive interaction across organizational levels between the parties than, say, would characterize the typical alliance-of convenience that is the lock-out alliance. The following reading discusses processes distinctive to a learning alliance in detail.

2. Do you think managers are likely to find the identification and discussion of ISA objectives useful?

The identification of alternatives is likely useful in shaping good decision. And the reading notes that the alternatives available to managers in approaching the purposes of ISAs have not been well developed in the literature. The discussion provides a language that defines the different alternatives in deciding on objectives for an ISA that a manager might be contemplating. The identification of distinct alternatives illuminates the scope for a managerial choice. It therefore helps manager to structure their thinking about how to exploit a very important organizational alternative for long-term sustainability of the firm. Managers could use Table 2 in the reading as a tool to become more aware of their own approach and the alternatives available to them.

INKPEN, "CREATING KNOWLEDGE THROUGH COLLABORATION"

Summary of Reading

This reading re-iterates the theme of this chapter that inter-firm alliances are increasingly significant to a firm's long-term sustainability, and that the growth of such partnerships is perhaps the most significant trend in business. The specific focus of the reading is on alliances for learning organized through a particular structural form– the joint venture – and with respect to specific activities (manufacturing process and product technology). These are, respectively, just one type of alliance objective, one type of alliance structure, and a limited range of activities identified by the immediately preceding reading as being possible in an alliance).

Four knowledge-management processes by which parent organizations can exploit alliance learning opportunities are identified: *technology sharing*, *JV-parent interactions*, *personnel movement*, and *linkages between parent and alliance strategies*. Six organizational conditions or factors that facilitate effective learning are also identified: *flexible learning objectives*, *leadership commitment*, *a climate of trust*, *a tolerance for redundancy*, *creative chaos*, and *avoiding performance myopia*.

Knowledge-management processes

As Table 1 indicates, these processes can be used to manage tacit and explicit learning. *Technology sharing* occurs primarily through regular (and typically cross-functional) meetings between the partners, and was supplemented in various ways – for example in two alliances by plant visits.

JV-parent interactions generate a context for knowledge sharing and the questioning of established assumptions (i.e. “communities of practice”) beyond the instrumentality of technology sharing.

Personnel movement between the JV and the parent further invigorates knowledge sharing by “mobilizing” personal knowledge.

Linkages between parent and alliance strategies enhance the perception of opportunities and resource commitment by the parent. And also helps give added perspective to distinctions between the parent and JV businesses.

Organizational conditions facilitating effective learning

Flexible learning objectives implies a willingness to alter the content of initial knowledge-acquisition expectations as the alliance develops.

Leadership commitment denotes the need for an organizationally-powerful sponsor of the objective of knowledge creation through the alliance.

A climate of trust is three-way (between the partners, and between the JV and each partner) is crucial to the free exchange of information and appeared to be contingent on top-management involvement and a history of positive partner relations.

A tolerance for redundancy i.e. the conscious overlapping of company information, activities, and management responsibilities enables inter-personal dialogue; an over-emphasis on efficiency and precision will tend to narrow the scope for any exploratory discussion or re-visiting of issues.

Creative chaos occurs as a function of the questioning of either partner’s normal ways of organizing by the other. Managers should seek to channel it creatively, into focuses attention on forming and solving new problems.

Avoiding performance myopia denotes not focusing on early poor financial performance of the JV as evidence that no learning is occurring. Tracking such measures as customer satisfaction and product quality is likely to provide more robust indicators of long-term learning.

The author concludes that knowledge creation is a haphazard interactive process that will be unique to each alliance, and one requiring perseverance on the part of the parent organizations.

Discussion Questions

1. *Of a range of possible alternative objectives for an alliance relationship (see the previous reading), this reading focuses on just one. Why?*

The reading focuses on alliances for learning, and can be argued to do so for at least two reasons. First, these have on average the greatest value-creation potential of all alliance forms. It is no coincidence, therefore, that the previous reading discussed this alliance form first. As defined in that reading, the motivation for engaging in a learning alliance is knowledge transfer about some value-adding activity that cannot be bought on the market (say, because of necessary tight coupling with other activities) and the development in-house of which would be relatively slow, inefficient, and costly. Therefore, alliances for learning can be crucial source of capability development and, this reading suggests, are becoming ever more so given the significance of the overall trend toward alliance relationships. A second reason, though not made explicit in the reading, is that most

research on alliance formation is on using alliances for purposes of learning, and in particular how to organize for this. However, despite this emphasis in the research, a great deal of work still needs to be done to understand the processes involved in such inter-organizational learning – and it is precisely here where this reading makes a contribution.

2. If learning alliances are so important, why do you think firms disable knowledge management processes? (See anecdotes under each heading.)

The reading helps us identify two primary reasons why learning gets disabled: a failure by the parent to execute specific organizational processes necessary to access, assimilate, and disseminate alliance knowledge, and a failure to put facilitating factors in place. While such failures could be attributed to the fact that learning through alliances is difficult, frustrating, and an often misunderstood process, the reading presents various additional reasons, mostly in anecdotal form, that help flush out why a parent might make these failures. Hubris in the parent is one specific barrier to learning processes, i.e., where the JV is viewed as an “upstart” who could have little to teach the parent directly; another is where an anxiety of avoid disruption can, for example, restrict the rotation of personnel.

CHAPTER 11: GLOBALIZATION

BARTLETT AND GHOSAL,

"MANAGING ACROSS BORDERS: NEW ORGANIZATIONAL RESPONSES"

Summary of Reading

International companies must now simultaneously optimize efficiency, responsiveness and learning. This typically means adding a third dimension—geography—to existing functional and business structures. The problem is exacerbated by units being divided by distance and time and managers being separated by culture and language.

From unidimensional to multidimensional capabilities

To simplify this difficult management task, managers made some simplifying dichotomous assumptions:

- national responsiveness vs. global operations
- centralization vs. decentralization of key resources and assets
- central control vs. subsidiary autonomy

These unidimensional choices become limiting after a while. Firms need to be strong along three dimensions. "Strong *geographic* management is essential for development of dispersed responsiveness Effective competitors also need to build strong *business management* with global product responsibility if they are to achieve global efficiency and integration Finally, a strong, worldwide *functional management* allows an organization to build and transfer core competencies—a capability vital to worldwide learning. To develop this three-part effectiveness requires a multidimensional approach with a balance among the three management groups.

Overcoming simplifying assumptions

Developing a truly multidimensional approach was difficult because of the pervasiveness of three simplifying assumptions:

- there is an implicit assumption that the roles of different units are uniform and symmetrical, i.e., that different businesses, functions and geographical divisions can at be managed the same way.
- there is an assumption that inter-unit relationships should be clear and unambiguous, which leads corporations to create relationships on the basis of dependence or independence.
- management typically assumes that one of its principal tasks is to institutionalize clearly understood mechanisms for decision-making and simple control mechanisms.

Firms that were successful at implementing multidimensional organizations were the ones who successfully challenged these assumptions. They *differentiated* tasks and responsibilities. They built and managed *interdependence* among units. They searched for the complex mechanisms needed to *coordinate* and *co-opt* the differentiated and interdependent units in sharing vision. These are the central characteristics of the *transnational corporation*.

From symmetry to differentiation

Just as they saw the need to change symmetrical structures and homogeneous processes imposed on different businesses and functions, most companies we observed eventually recognized the importance of differentiating the management of diverse geographic operations. Many companies are creating different levels of influence for different groups as they perform different activities.

From dependence to interdependence

“The reality of today's worldwide competitive environment demands collaborative information sharing and problem solving, cooperative support and resource sharing, and collective action and implementation.” Independent units risk being defeated by organizations that can move in a coordinated fashion across markets and functions. Being centrally dependent has its risks, too, primarily those of being unresponsive to local events and conditions.

Long histories of dependency or independence can be difficult to break and change. Yet some firms have done it. The most successful did so not by creating new units, but by changing the basis of the relationships among product, functional, and geographic management groups. They made integration and collaboration self-enforcing by making cooperation necessary for the achievement of self-interested goals.

Three important flows seem to be at the centre of emerging organizational relationships:

- flow of parts, components and finished goods. This stems from product interdependence.
- flow of resources, to counteract the previous independence or total dependence.
- flow of intelligence, ideas and knowledge.

These interdependencies are different from the more typical ones. Those were pooled interdependencies. The newer ones are reciprocal interdependencies.

From control to coordination and cooption

The simplifying assumptions of symmetry and dependence/independence allowed companies to use simple controls—either tight controls for dependent units or loose controls for independent ones. Interdependence requires more complex control methods. Similarly, greater differentiation of units requires greater differentiation of management processes.

The greater flows of parts, resources and information made coordination a central management function. But this comes with a high cost. Better approaches were to increase the use of previously under-utilized things like socialization of managers, formal systems and social processes. Management's task becomes one of rationing the use of these new methods and matching them to the proper applications.

Roles of units might vary dramatically, from strategic leader with corporate-wide business management responsibility to mere implementer of strategies developed elsewhere. These roles must be managed in different ways. The strategic leader must have freedom yet support; its controls must be light, but controls over resource and

information flows might be quite intense. The implementer unit would have tight operating controls and standardized systems to coordinate flows.

Differentiation can have a fragmenting and de-motivating effect. That is why corporations must also use *cooption*: “the process of uniting the organization with a common understanding of, identification with, and commitment to the corporation's objectives, priorities, and values.” The management process that distinguished transnational organizations from simpler unidimensional forms was one in which control was made less dominant by the increased importance of interunit integration and collaboration. These new processes required corporate management to supplement its control role with the more subtle tasks of coordination and cooption, giving rise to a much more complex and sophisticated management process.”

Sustaining a dynamic balance: role of the mind matrix

In a multidimensional organization, the functional, product, and geographical units must have different roles for different activities. These roles will evolve and change as conditions change. The ability to manage the multidimensional organization capability in a flexible manner is the hallmark of a transnational company. Good managers used classic tools like organization structure and management systems. They used them to shift things around to prevent atrophy or entrenchment.

But successful transnational companies had an additional element. They focused on *individual* members of the organization. They all tried “to develop multidimensional perspectives and flexible approaches at the level of the individual manager.” The mentality of who constitutes the structure is as vital as the structure itself. Managerial mindset is what holds these diverse tasks together. That is a mindset “that understands the need for multiple strategic capabilities, that is able to view problems from both local and global perspectives, and that accepts the importance of a flexible approach. Managers should resist trying to create a Cereals matrix structure, but should instead create one in their minds.

“Our study has led us to conclude that a company's ability to develop transnational organizational capability and management mentality will be the key factor that separates the winners from the mere survivors in the emerging international environment.”

Discussion Questions

1. Why does a multinational firm need all three kinds of management?

It needs *geographic* management to ensure responsiveness to national markets. It needs *business* management to achieve global efficiency—through manufacturing rationalization, product standardization and low-cost global sourcing—and integration. *Functional* management allows firms to build their core competencies, which they can then share—the key to learning.

2. What is your reaction to the “simplifying assumptions” identified by the authors?

These assumptions are likely to be shared by many students. The first, that management is the same regardless of business, function or location, is an old one that is still believed

by many people. The authors are correct in pointing out that each of these dimensions alone is enough to change the management task. The second simplifying assumption, the idea that interunit relationships should be clear and unambiguous, is widely held, as is the resulting reliance on relationships of clear dependence or clear interdependence. But the authors point out that interdependence and cooperation are superior, albeit more difficult, under the circumstances in which transnational corporations find themselves. Lastly, most students will agree that management is responsible for institutionalizing control mechanisms, and the simpler the better. But this ignores the need for more sophisticated mechanisms, along with the need for cooption— a better common understanding of the organization's goals and values.

3. Why does differentiation make sense?

Differentiation has made sense since Lawrence and Lorsch first thought of it as a concept. Basically, if you are facing a diverse environment, your organization must be more diverse. In the case of a transnational corporation, if it operates many businesses composed of many functions in many countries, it must create as many different management schemes as it needs. R should not assume that one size of management approach will fit all.

4. What are the problems with dependence or independence as multinational approaches?

Independent units will be overwhelmed by transnational companies that have the ability to integrate research, manufacturing, and other scale-efficient operations, and that have the opportunity to cross-subsidize the losses from battles in one national market with funds generated by profitable operations in other markets.

Dependent units will lose local market responsiveness and will also be unable to respond effectively to strong local competitors. They may also fail to sense potentially important local market or technical intelligence.

5. What do the authors say is the best strategy for achieving interdependence?

They suggest moving to interunit relationships based on explicit, genuine interdependence. They suggest making integration and collaboration "self-enforcing" by making it necessary for each unit to cooperate in order to achieve its own interests. All of this involves weaving together three flows: of goods, of resources and of information.

6. What is the significance of moving away from pooled interdependence and toward "reciprocal interdependence"?

Pooled interdependence is not a very strong form of interdependence. It is merely the "Adding up" of all the activities of the various units. All the units are collectively responsible for the company's success in the sense that if enough of them are successful individually, the firm will be successful. Needs of one unit may be met by another unit, but only through either coercion or persuasion. Reciprocal interdependence is the strongest form of interdependence. Each unit relies for its success on each other unit. This makes them vulnerable, but also motivates them to cooperate. Ultimately, cooperation will make all the units collectively stronger.

7. How do the authors suggest companies go about moving from control to coordination?

They are a bit vague on this point. They decry the use of simplistic control mechanisms, but don't have anything specific to offer in exchange. They tout "socialization of managers" and the use of formal systems and social processes. But it is not clear what they mean. Whatever it is that firms choose to do should be robust and flexible. This no doubt is as opposed to simplistic and rigid. The authors do give some good examples of how to vary the coordination and control tools with the situation. Units with significant strategic responsibility should have loose controls and lots of information. Units whose only responsibility is to implement strategies should have tighter controls, mostly over flows of goods.

8. What is your reaction to the concept of cooption?

The word "cooption" has tended to have different meanings in other contexts than it does here. It usually means something like subtly buying people's allegiance by, for example, putting them in charge of something that they previously opposed. Here it means getting people to buy into the goals and values, the culture, of the company. That is close to the ideological strategy discussed by Mintzberg in a previous chapter.

9. What is the key to successful management of transnational corporations?

The authors think that flexibility is key. They underline this with a point they made in an earlier reading—"managers are better off having at/matrix in their minds" than trying to actually create a matrix form. As flexible as those are supposed to be, they are not as flexible as the virtual matrix in a manager's mind.

YIP, "GLOBAL STRATEGY... IN A WORLD OF NATIONS"

Summary of Reading

Whether, and how, to globalize have become two of the most burning strategy issues for managers around the world. Globalization is a more integrated international approach than the now-familiar multinational (also called multidomestic) strategy.

Three steps are necessary for developing a worldwide strategy:

1. Developing the core strategy, usually for the home country first.
2. Internationalizing the core strategy through international expansion of activities and through adaptation.
3. Globalizing the international strategy by integrating the strategy across countries.

Multinational companies know the first two steps well, but the third step less well since globalization runs counter to the accepted wisdom of tailoring for the national market.

Strategic managers must understand and cope with *industry globalization drivers*, and must manage *global strategy levers*.

What is global strategy?

Setting strategy for a worldwide business requires making choices for a number of levers:

Market participation: Countries need to be chosen for their potential contribution to globalization benefits. This may mean entering a locally unattractive market.

Product offering: The ideal is a standardized core product that requires minimal local adaptation. Cost reduction is usually the most important benefit of product standardization.

Location of value-added activities: In a global strategy, costs are reduced by breaking up the value chain so that each activity may be conducted in a different country.

Marketing approach

A uniform marketing approach is applied around the world, although not all elements of the marketing mix need be uniform.

Competitive moves: Need to be integrated across countries. The same type of move is made in different countries at the same time or in a systematic sequence. The best example: counterattack in a competitor's home market as a parry to an attack on one's own home market.

Benefits of a global strategy

Cost reduction: Can come from such sources as: pooling production or other activities for two or more countries; exploiting lower factor costs by moving activities to low-cost countries; exploiting the flexibility of having several locations, each with a different cost level at any given time; enhancing bargaining power.

Improved quality of products and programs: Under a global strategy, firms focus on a smaller number of products and programs, which can lead to improved quality.

Enhanced customer preference: Global availability, serviceability, and recognition can enhance customer preference through reinforcement.

Increased competitive leverage: A global strategy gives more points from which to attack and counterattack competitors

Drawbacks of a global strategy

- Increased coordination needs
- Increased reporting requirements
- Added staff

Strategic levers have their own pitfalls: Market participation can incur an earlier or greater commitment to a market than is warranted; product standardization can yield a product that does not entirely satisfy any customers; activity concentration distances customers and can result in lower responsiveness and flexibility. It also increases currency rise; uniform marketing can reduce adaptation to local customer behaviour; integrated competitive moves can mean sacrificing revenues, profit, or competitive position in individual countries, particularly if operations in that country are used to attack competitors.

The most successful worldwide strategies match the company's level of globalization to the company's potential for globalization, i.e. they find a balance.

Industry globalization drivers; Market drivers

Homogeneous customer needs: creates opportunities to market standardized product

Global customers: these buy centrally for decentralized use

Global channels: these buy on a global, or maybe regional, basis. Middlemen may buy low in one country and sell high in another country

Transferable marketing: some marketing elements, like brand names and advertising, may require little local adaptation

Cost drivers

Economies of scale and scope: scale at a given location can be increased by participation in multiple markets, combined with standardized products or concentration of activities

Learning and experience: can accelerate the accumulation of learning and experience

Sourcing effectiveness: centralized purchasing can lower costs

Favourable logistics: transportation costs and schedules can be favourably affected

Differences in country costs and skills: firm can concentrate certain activities according to cost and skill factors

Product development costs: it is cheaper to develop a few global products than many national products

Governmental drivers

Favourable trade policies: import tariffs and quotas, non-tariff barriers, export subsidies, local content requirements, currency and capital flow restrictions, technology transfer requirements; all of these can affect competitive moves

Compatible technical standards: creates opportunities for product standardization

Common marketing regulations: absence of these creates problems, e.g., certain types of media may be restricted in certain countries

Competitive drivers

Market, cost and governmental drivers are essentially fixed for an industry at any given time. In contrast, competitive drivers are entirely in the realm of competitor choice.

Interdependence of countries: can be created through global strategy, usually through sharing of activities. These will create cost advantages in all countries dependent on them.

Globalized competitors: matching or preempting individual competitor moves (e.g., entering markets, introducing products, using uniform marketing) may be necessary.

Changes over time: as the industry globalization drivers evolve over time, so too will the appropriate global strategy.

More than one strategy is viable

Industries vary across drivers: No industry is high on every one of the many globalization drivers. Global effects are incremental; firms can offset "globalization driver disadvantages" by making good strategic lever choices e.g. a firm with good technology can use it to offset globalization disadvantages. Business and parent company position and resources are crucial; the possibility of pursuing, or even the potential for effectiveness of, a global strategy may be compromised by a lack of resources or poor strategic positioning. Organizations have limitations; factors such as structure, management processes, people, and culture affect how well a desired global strategy can be implemented.

Discussion Questions

1. In the introduction, the author gives some reasons as to why the idea of globalization has become so popular. What is your opinion about the worthiness of globalization?

This question is designed to stimulate discussion. Sometimes it seems that globalization has become so fashionable that it is recommended to everyone, regardless of its merits. Whether or not globalization makes sense for a firm all depends partly on the situation with the Drivers the author mentions. If these point to the efficacy of globalization, there are some benefits: (1) cost reduction (e.g., from pooling production); (2) improved quality of products and programs (based on greater focus); (3) enhanced customer preference (based on reinforcement); and (4) increased competitive leverage (more places from which to launch attacks and counterattacks).

2. Yip says that the market participation "lever" may occasionally require that a firm enter a locally unattractive market. What is your opinion of this idea?

If the author is correct, he is advocating that a firm deliberately create a BCG-style dog. This is something that the Boston Consulting Group said a firm should never do. But it is precisely the kind of thing which exposes the flaws in the BCG model. This shows that it often *does* make sense to have a dog in the portfolio, because it might help the firm to achieve other ends.

3. The author emphasizes the benefits of a standardized core product. What is your opinion about this aspect of globalization?

This is obviously an important element of globalization. Almost by definition, a globalized firm must offer standardized products across the face of the planet. What is interesting about the idea is that it runs against the grain of the concept of ever-more-focused segmentation that seems to be gaining ground in marketing. For example, some soup companies will sell different formulations of a brand in different neighbourhoods of a city! Another problem is that product standardization can yield a product that does not entirely satisfy any customers.

4. Which set of industry drivers do you think is the most important?

There are four sets of industry drivers: (1) market drivers, (2) cost drivers, (3) governmental drivers, and (4) competitive drivers. Some students may argue that nothing

is possible unless the government allows it, so the government drivers are the most important. Others will argue that governments don't have the resources to regulate everything, so that there is plenty room for maneuvering. They may argue that the competitive drivers are, as the author points out, always available to time, so *they* are the most important. Others may assert that cost is always such an important factor, and source of competitive advantage, that the cost drivers are the most important. It is difficult to say which set is most important. It would depend on the particular circumstances of the industry. Students may nevertheless argue the various positions outlined above.

5. What does the author mean when he says that global effects are incremental?

Yip means that, if a Finn makes intelligent strategic choices, it can still succeed even if its strategy is mismatched with industry globalization drivers. He gives the example of a firm with good technology but little else to recommend it for globalization. That firm could gain a little bit now, and perhaps more later. It doesn't all have to come in one bite. Indeed, the resource and skill constraints are so large that it is unlikely that even large firms would be able to globalize quickly. And most of the large firms that are now interested in globalizing have got to the point where it is feasible for them only after a long period of corporate evolution.

RANGAN, "SEVEN MYTHS REGARDING GLOBAL STRATEGY"

Summary of Reading

This reading discusses seven common myths about the ability of a firm to successfully pursue a global strategy.

Any company with money can go global

This myth overvalues tangible assets as a source of advantage, and undervalues intangibles. Thus rivals in the foreign market will have many established linkages underpinning their business model – to suppliers, customers, host-country authorities – that require some compensating and compelling advantage on the part of the interloper. Money – whether in one's home or some foreign market – will be enough to establish such a business model. Thus there is no point in going global unless you already have a good business strategy; furthermore, going global incrementally (e.g. by first exporting from the home country) is typically advisable in order to explore the actual possibilities and how best to exploit them.

Internationalization in services is different

The author argues that internationalization of services is really no different than in manufacturing, and is subject to the same tests of a necessary (and superior) intangible asset, effective demand in the foreign market, and "replicability" of value creation there.

Distance and national borders matter no more

This myth is grounded on observations of the communication possibilities of the Internet, and evidence of the international success of various products and services, and especially U.S. ones. However, this underplays the continuing significance in terms of reliability, and information richness of local sources of information over abstracted sources (such as the Internet). National borders also continue to matter in terms of value orientations and in terms of differences in the legal and economic infrastructures. A successful strategy will need to take account of all such differences. Thus it makes sense to expand first in regional or historically connected (i.e. relatively familiar) markets before relatively distant (i.e. unfamiliar) markets.

Developing countries are where the action is

Globalization is still a rich-country game because of such countries' purchasing power. Thus, these countries account for the bulk of international trade and of inward and outward investment. Moreover, large multinationals strongly tend to come from developed countries.

Manufacture where labour costs are cheapest

As a generalization (but not as a rule): "make where you sell", i.e., if you are selling in developed countries it will often make sense to manufacture there too. This is true for reasons of the significance of unit costs (rather than wage costs). Thus, wage costs may not be a reliable indicator of ultimate unit costs because of materials costs and shipping costs to low-wage areas, the tendency to relatively-low productivity in such areas, and currency risk.

Globalization is here to stay

This myth may be attributed to an absence of a sense of history. That is, while certain irreversible changes certainly underpin globalization (such as technology changes and rising affluence tending to reduce differences in consumption and work patterns across the world), globalization has been crucially accompanied by a generally sustained and positive trend in economic growth over the past several decades, the absence of war in most developed countries, and, more recently, the spread of economic liberalism. Absent growth or peace and globalization will likely be a casualty. Therefore globalizing businesses need to pay close attention to social responsibilities; such as unemployment, employee retraining, and economic equality.

Governments don't matter anymore

This myth ignores the continuing significance of the local and national to people, and the likelihood that they believe local and national governments to be the key institutions for advancing these interests with constancy, for in a globalizing world people no longer expect that of business. Moreover, government acts as a counterweight to the non-local

and non-national, and an independent arbiter of the rules by which global business can be conducted. The implication for business is that cooperation with government must be an important factor in global strategy formation.

Discussion Questions

1. How does this reading give us further insight into the significance of how the value chain of a product is configured?

The emphasis on the significance of both tangible and intangible assets, of linkages to external players and infrastructure, of rich interactions, careful learning, social responsibility, and not looking at variables (such as manufacturing) all underline the need to think holistically when going international. That is, while many of the existing elements in a business strategy may be capable of replication, a degree of customized configuration of them may well be necessary. The need for configuration implies that getting just one such element badly wrong (e.g. Galeries Lafayette) can be fatal. Finally, in this regard the reading also introduces the theme of the next chapter – values in the sense of cultural and moral norms. In the present reading values are shown to matter in how the value chain is configured in a foreign country (e.g., in the form of accepted external relationships). This is often not obvious for an established firm in its home country but is thrown into sharp relief when the firm seeks to establish operations abroad.

2. Do you agree with the author's assertion that the challenges faced in internationalizing services are much the same as those faced in internationalizing manufactured products?

The crucial distinction between services and manufactured products is that services are significantly consumed at the point of production; they for the most part cannot be stored and need to be produced on demand. Thus, each rendering of the service is like an instance of innovation, with a very significant input being a request or problem voiced by a customer. Moreover, this innovation is carried out by people in the operational process, as opposed to the R&D/manufacturing distinction that characterizes manufactured goods. These features imply that services are interaction intensive relative to manufactured goods, and in particular customer-interaction intensive, and this tends to make services significantly culture-specific, and therefore harder to replicate and sell abroad. Moreover, because services cannot be stored they are much less amenable to the 'export first, locate later' strategy of graduated entry into the foreign market. All of this illuminates a seeming contradiction between the author's discussion of the 'services' myth and 'disappearing borders' myth.

However, some services are or can be significantly standardized (and perhaps customization confined to downstream activities), and this opens up globalization possibilities, particularly for those that have a significant tangible component (e.g. *McDonald's*, *Blockbuster*, *IKEA*). Or, despite the service's being highly customized, it may be feasible to target a relatively narrow (and especially high value) segment rather than the mass market (e.g. investment banking, management consulting); the cost and effort of customizing will be then likely rewarded with high margins (indeed, variation in the substance of customization may not be especially necessary as such high value segments tend to be cosmopolitan and therefore relatively similar across borders).

Alternatively, the service firm may be following a customer who is internationalizing with similarly modest implications in need of variation in the substance of customization. Finally, it might be argued that a trend to customized standardization (see again the Mintzberg & Lampel reading in Chapter 9) will be key to the globalization of services (e.g. multi-lingual call center-based product support).

3. What does the reading have to tell us about the importance of understanding business history?

The significance of historical understanding is evident in the author's emphasis on an appreciation of cultural difference and how deeply formed these are, but perhaps especially in his point that "globalization need not be forever," and that how well it persists is at least partly dependant on individual firm behaviour, especially in the realm of social responsibility in the host country. That "globalization need not be forever" can be further appreciated by recalling that international trade as a percentage of economic activity fell precipitously during World War I, and thereafter took over 50 years to retain its earlier level. Importance of history is evident. Thus, should globalization become a casualty, history teaches us that recovery would likely have to await the slow recovery of sustained economic growth and unwinding of protectionism.

CHAPTER 12: VALUES

GUSTAFSSON, "NEW VALUES, MORALITY, AND STRATEGIC ETHICS"

Summary of Reading

This reading addresses the issue of *ethical strategy*. Large organizations stand at the intersection of different groups of stakeholders and are therefore likely to be continually confronted with contending choices that raise distinctions of morality. Thus, the alternative to decisions that disadvantage one player in favour of another can often seem merely to switch who is advantaged and who is disadvantaged. Furthermore, the activities of such organizations are large in scale and of long duration. This makes them difficult and costly to change. Thus, changing from doing something wrong will likely be slow not just because contending interests make it difficult to switch to something that is indisputably right, but also because the cost of change motivates a bias in favour of downplaying the need to change. Finally, even with the best will in the world, change will be slow in materializing because both the realization that something good has turned worn, and implementing corrective action, take time. Therefore, strategists need to consider what not just is good and bad, but how this might change projecting into the action-relevant future (say, 10 to 15 years out).

Moral responsibility is not decided in a vacuum but is significantly shaped by the moral demands of society. Through the influence of people individually and in combination in the organization, and of society – in particular, the acceptance by employees of norms of the wider society – every organization has some set of moral, indeed normative, expectations. Business, indeed, is strongly moralistic, and this morality is informed by the twin poles of *instrumentality and cooperation*. Thus, it is widely accepted that the modern corporation does not depend on the unrestricted personal greed of a set of free and disconnected agents, but rather on highly restricted personal interests, loyal cooperation, trustworthiness, and management that is skillful and that promotes rationality, efficiency, and hard work. In other words, on strong moral ties, the alternative is likely to be personally unpleasant and, ultimately, corporately ruinous.

Moral values are not static. Two key areas of likely moral change have to do with the effects of rapid technological change and environmental change. The effects these have on morality will be mediated by the particular national culture of the organization's environment.

Moral action depends on the ability to draw on accumulated experience from a relatively stable world. Therefore, rapid technological change, by quickening the pace of organizational action, leaves less time for reflection, and risks the loss of an effective moral compass. The cumulative environmental effects of economic activity – the depletion of natural resources, the loss of wilderness, rising pollution – threaten the well-being of present and future generations. The longer these effects are reinforced, the harder it becomes to correct them, and the lower the chances of an ultimately worthy moral posture with respect to the future.

The reading concludes with some prescriptions for ethical strategy: an ethical committee can establish some kind of routine for probing the moral climate of the firm; codes of conduct fully supported by management help make that moral climate explicit and embodied in the organization's collective action. Such prescriptions will be of most value if implemented pro-actively, rather than in response to crisis.

Discussion Questions

1. The reading notes one view is that "the managers of the firm have no moral responsibility except for taking care of the interests of the owners." What do you think?

This picks up on a theme of social responsibility raised toward the end of the previous reading; no business acts in a vacuum, and managers ignore values of the society around them at their own peril. A similar theme was raised in the Rangan reading in the previous chapter; managers must be mindful of local social values when establishing operations in a foreign country. That manager's moral responsibility should be limited to taking care of the interests of the owners can receive some justification, in that allowing otherwise gives managers discretion to apply resources that don't belong to them for purposes which were not intended. Alternatively, it could be argued that trying to take into account a moral responsibility to other than the owners will lead to vagueness in objectives, indecisiveness in action, and waste of resources.

However, the present reading emphasizes that every organization is possessed of some set of moral, indeed normative, expectations due in part to the acceptance of the norms of the wider society by managers and by employees. To manage properly, managers need to take proper account of these influences toward a relatively widely-defined moral responsibility extending beyond the interests of the owners. Moreover, owners too are members of society and similarly subject to its normative influences; hence there need not be a contradiction between managing with society in mind and managing in the owner's interests. Finally, in the long-term it is very likely that attention to social responsibility will be significant to the sustainability of the firm – for reasons similar to those identified by Rangan in the previous chapter in his discussion of the sustainability of globalization.

2. What does the reading tell us about how managers acquire a sense of moral responsibility?

As indicated in the previous answer, managers as individuals will be socialized in normative behaviours and expectations by the society of which they are a part. However, the reading more precisely addresses this question through its attention to the influence of formal business education on the moral sensibility of managers. As the author observes, formal business education is strongly moralistic, and has been hugely significant in promoting the wide acceptance among managers that good management involves on restricted personal interests, loyal cooperation, trustworthiness, rationality, efficiency, and hard work. Note that this point on the prescriptive role of business education echoes a similar point made with respect to the prescriptive schools of strategy-making, as discussed in the Mintzberg & Lampel reading in Chapter 1.

3. *What do you think of the author's comments on the moral implications of rapid technological change and environmental degradation?*

With regard to technological change, the author identifies privacy and “time to think and learn” as two key concerns. Because some of the more significant technological developments of recent years have been in information distribution, the concern with privacy is understandable. However, as perhaps for any information technology development, the moral implications will be a function of parallel developments in complementary technologies and in the legal and social spheres. Thus there have been recent parallel developments in security technology, freedom of information legislation, and a generally heightened awareness of respect for the integrity of personal information. The second concern, the faster the pace of change the weaker the chances for moral agreement and action – appeals to a view of decision-making under pressure as necessarily inferior. This is not obviously true. It could equally be argued that more time gives people the leisure to find cases for disagreement, increasing conflict and leading to entrenched positions. Secondly, the pace of business action has been increasing for quite some time – for example, product development cycles across many industries have been shortening for many years, even as products become more complex. Much of this improvement has been driven by better management techniques and improved average levels of education, again underlining that it is inappropriate to think of the moral implications of technological change and assume other factors, and especially social factor, hold constant.

The concerns the author raises regarding the impact of present behaviour on the natural environment are likely to find a sympathetic audience. However, is this a “developed-nation” perspective? That is, to improve their levels of economic wealth, less developed nations cannot avoid some degradation – and perhaps a lot - of their environments. It is difficult to think that moral arguments can be raised against such countries efforts to advance themselves. But perhaps a fairer application of the author's point would be to suggest that such countries' impact on the environment can be minimized with the assistance of developed countries, and this assistance is a moral responsibility.

SELZNICK, “LEADERSHIP IN ADMINISTRATION”

Summary of Reading

This reading contrasts *administrative management* with *institutional leadership*. Administrative management denotes influencing the organization solely in instrumental terms: how well it mobilizes human energy and directs it toward set aims. Institutional leadership, on the other hand infuses human activities with meaning such that their value goes beyond instrumental, i.e., beyond the technical accomplishment of the task at hand. That is, for employees the organization is not an expendable tool (the instrumental view) but a valued source of personal satisfaction; people identify with the organization, and change is therefore a significant issue.

The failure to infuse value in the organization tends to happen by default, and it drifts; this could be due to failures of discipline and of understanding. For example, the vague formulation of objectives due to the distractions of day-to-day management or in order to

avoid conflict inside and outside the organization and also the thinking that is associated with a precise statement of purpose. For a goal to be significant implies a profound influence on how and what decisions get made, by whom etc.

The interpersonal leader, who focuses on efficiency through smoothing the path of human interaction, is not an institutional leader but a form of administrative manager. Institutional leadership is concerned with the long-run implications of current issues for the role and meaning of the social unit – not just the mobilization of personal support, and not just the routine solution of day-to-day problems.

Thus, institutional leaders set meaningful goals for members of the organization and defend the integrity of these, building strategy into the structure of the organization (“the institutional embodiment of purpose”), and reconciling internal strivings and environmental pressures. Ultimately, therefore, institutional leadership drives the evolution of distinctive organizational capabilities and commitments made by the organization.

Discussion Questions

1. What does this reading tell us about the notion of institutionalization and its relevance for management?

Institutionalization, as the reading develops the idea, is the process by which an organization develops a distinctive character, and what it does becomes “infused with value beyond the technical requirements of the task at hand.” An “institution” is the outcome of a social entity that is responsive and adaptive to its internal and external pressures, fashioning distinctive responses to them. The idea is that the pattern of critical decisions results in a distinctive organizational character, just as an individual’s critical decisions and typical mode of coping with problems gives rise to the development of a distinctive personality.

Because all organizations attempt to cope with internal and external pressures, all will be institutionalized to some degree. However, leadership plays a critical role in determining to what degree an organization becomes infused with particular values. “Institutional leaders” have a crucial role to play in ensuring professed goals become operative goals and are actually achieved but, consistent with notions of emergent strategy, they should also, if necessary, reinterpret and renew the mission of their organization. Such leadership fails either through inaction or when goals are subverted by vested interests inside or outside the organization, for then the institution comes to be seen as a “dispensable” organization.

2. How do the author’s views about the distinction between the administrative manager and the institutional leader parallel a distinction between the significance of analysis and synthesis in management?

Administrative management is implied by the author to be a mostly analytical task, “an exercise in engineering...governed by the related ideals of rationality and discipline”; it is focused on devising and coordinating the operation of a formal system of rules and

objectives. Maintaining a distinctive identity for the organization is crucial task of the institutional leader, and is something of which the “administrative analyst” is incapable of because he “has no tools to deal with it.” The institutional leader, on the other hand, attends to the convergence of personal and organizational goals and values, of infusing the objectives of the organization in its structure values, and reconciles internal and external pressures, especially concerned with molding the organization into a distinctive synthesis of social phenomena.

GHOSHAL, BARTLETT, MORAN, “A NEW MANIFESTO FOR MANAGEMENT”

Summary of Reading

This reading warns that the concepts of “corporate” and “management” have become infused with negative values, and are threatened with terminal decline. This has happened, it is argued, because deeply unrealistic and pessimistic assumptions inform current management thinking and practice. Such assumptions include the premise that “markets rule” and managerial attention is exclusively focused on the linked concerns of efficiency, appropriation and control. These assumptions need to be revised to properly reflect that modern societies are organizational economies whose growth depends on the quality of their managerial cadres, and whose purpose is morally grounded in employability and value appropriation. The key to seeing the superiority of these latter assumptions is to recognize the distinction between static and dynamic efficiency: the former emphasizes exploitation of existing economic options, the latter emphasizes the innovative creation of new options and new resources.

Contrary to economics-based arguments, organizations are not the result of market failure but are inherent to value creation: individual are empowered, their actions coordinated, and social welfare promoted. Thus *organizational economies* are where organizations are a repository of the economy’s social capital. A ‘dynamically-efficient’ perspective allows us to see, for example, that the time spent on R&D by a firm is valuable. Not for present revenues, but for future ones, with markets eventually forcing companies to divide the value created with others, thereby promoting social welfare. Strategy is not overwhelmingly focused on productivity and cost-cutting, but emphasizes internal cooperation and the pooling of resources to create new combinations of knowledge and expertise. Thus “The three Ss of strategy, structure, and systems that were at the core of the managerial role give way to the three Ps: purpose, process, and people.”

The latter promote trust and teamwork, which the authors identify as crucial to long-term survival in hyper-competitive environments. Achieving them will involve a new moral contract with employees in which the company offers not job security at the company but rather empowerment and employability (through investing in continuous education and development of the employee while he or she is with the company). In return, employees take responsibility for the competitiveness of both themselves and the company to which they belong. This is a philosophy of mutual value-adding and continuous choice, rather than one-way dependence.

Discussion Questions

1. Do you agree with the author's assertion that the institution that is management is faced with a serious threat of decline?

Addressing this question requires some further specification of what is meant by “the institution” of management. This can be inferred from the previous reading: management operates as an institution when it gives meaning to people’s work. The alleged threat is based on the argument that the overwhelming emphasis in management and theory is on control, cost-cutting, and value appropriation, and that disregard for social welfare will inevitably lead to disaster for company and management alike. This would be a disaster for society if we accept that corporate activity is fundamental to our economic and social well-being.

However, the picture presented by this reading is surely one-sided. That companies should pay considerable attention to value creation, teamwork, and the long-term view has been emphasized in thinking and practice for a very long time. Moreover, the two specific schools of management thought that the reading discusses are just two of many (though both have been influential, at least in academia), and are in fact conceptually quite closely related (both are prescriptive in nature: See the Mintzberg et al reading in Chapter 1). More pointedly, both theories were not much elaborated on before the mid-1970s. If they are significantly responsible for the current allegedly dismal view of management asserted by the authors, this begs such questions as to how they could have had such an influence in a relatively short period of time, and what theories held sway before them? At best, it could be suggested that the authors exaggerate the pervasiveness of a particular view, theory, and practice of management to reiterate such important points as the significance to sustainability of value creation, teamwork, and mutuality.

2. The reading presents to strongly contrasting views of management. Which do you think managers should follow?

The most interesting answer to this would surely affirm “neither”: managers must manage the tension between both views. That is, value creation is necessary for the sustainability of the firm – but so is value appropriation; efficiency and control are both important elements of the long-run success of the firm also, but not to the exclusion of teamwork and mutuality. This reiterates the theme of managing the tension between the competing, but potentially mutually-reinforcing, ends discussed in Chapters 5 & 6.

CHAPTER 13: MANAGING START-UP

MINTZBERG, "THE ENTREPRENEURIAL ORGANIZATION"

Summary of Reading

The basic structure of this organizational type is simple. It has little or no staff, a loose division of labour, and a small managerial hierarchy. It is not formalized, and makes minimal use of planning or training. Power focuses on the chief executive, who exercises it personally. It is not uncommon to have everyone report to the chief. Decision-making is flexible, the highly centralized approach allowing for rapid response. Strategy creation is highly intuitive. Strategy tends to reflect the chief executive's implicit vision of the world. The author uses the examples of a Canadian supermarket chain and a textile firm to illustrate, respectively, the leadership focus and conception of a new vision in this organizational type.

Conditions of the entrepreneurial organization

External environment is usually simple (understandable by one person) and dynamic (good for flexible structures). The classic case is the entrepreneurial firm, where the leader is the owner. These firms are often young and aggressive, searching for the risky markets that scare off bureaucracies. (Some entrepreneurial organizations are not so aggressive or visionary; many settle down to pursue common strategies in small geographic niches.)

Most new organizations, regardless of sector, seem to adopt this configuration, because they have to rely on personalized leadership to get itself going. Some older organizations will retain the form as long as their founders are still around. The entrepreneurial organization also tends to arise in any other type of organization that faces severe crisis.

Formation of strategy

Principally through visionary leadership, which may be viewed as a hypodermic needle, the active ingredient (vision) is loaded into a syringe (words), which is injected into the employees to stimulate all kinds of energy. Another image is drama, or, more precisely, "repetition, representation, and assistance." Repetition suggests that success comes from deep knowledge of the subject at hand (e.g., Olivier and Iacocca). "The visionary's inspiration stems not from luck . . . but from endless experience in a particular contexts." Representation means not just to perform, but to make the past live again, giving it immediacy, vitality. Visionary leaders have profound language ability; they see things from new perspectives, but they get others to see them, too. Assistance means that the audience for drama empowers the actor no less than the actor empowers the audience. Leaders become visionary because they appeal powerfully to specific constituencies at specific periods of time. (Of course, they can then fall precipitously from grace— e.g., Churchill, Jobs, Hitler)

Leadership focus

The organization is malleable and responsive to that person's initiatives, while the environment remains benign for the most part. The "bold stroke" of the entrepreneur is more like "controlled boldness"—the ideas are bold, the execution careful. Central to entrepreneurship is intimate, detailed knowledge of the business or of analogous business

situations (the repetition discussed above). Clear, imaginative, integrated strategic vision depends on an involvement with detail, an intimate knowledge of specifics. So long as the business is simple and focused enough to be comprehended in one brain, the entrepreneurial approach is powerful, indeed unexcelled. Nothing else can provide so clear and complete a vision, yet also allow the flexibility to elaborate and rework that vision when necessary. “The conception of a new strategy is an exercise in synthesis, which is typically best carried out in a single, informed brain. That is why the entrepreneurial approach is at the centre of the most glorious corporate successes.” But its very strength carries its weakness. Successful entrepreneurship leads to larger organizations, which usually cannot be run as entrepreneurial organizations.

Conceiving a new vision

The genius of an entrepreneur is the ability to pursue one vision for a long time, and then, based on a weak signal, realize the need to shift that vision. “This ability to perceive a sudden shift in an established pattern and then to conceive a new vision to deal with it appears to remain largely in the realm of informed intuition, generally the purview of the wise, experienced, and energetic leader.” Lewin's change model of “unfreezing, changing, and refreezing” is used to explain what happened at Canadelle, the Canadian textile firm. The first step in unfreezing is to realize that things have changed. The second step is the willingness to step into the void—for the leader to shed his or her conventional notions of how a business is supposed to function. Change requires a shift in mindset before a new strategy can be conceived. This shift usually occurs in a eureka-type flash. After this, the refreezing step requires the blocking out of the situation, so that everything can be made to conform to the new vision. It is here that obsession becomes an effective organizational ingredient. A management that was open and divergent must become closed and convergent.

Issues

Centralized decision-making roots strategic response in deep knowledge of the operations. It allows flexibility and adaptability. It has a sense of mission. But the leader risks getting bogged down in operating details. And it is a risky organization, hinging on the activities of one individual. One heart attack can wipe out the firm's coordinating mechanism. If the leader resists change, adaptability is lessened. Some people find the one-person rule too restrictive. The entrepreneurial organization might seem anachronistic today, but it remains a prevalent and important configuration. This is because entrepreneurs need organizations; some spheres need small, informal organizations; some large firms need personalized leadership; and ailing organizations of all types need turning around from time to time.

Discussion Questions

1. How is the entrepreneurial organization a configuration?

The entrepreneurial organization, which Mintzberg used to call the simple structure, seems like it's too simple to be a configuration. But it does have a collection of organizational attributes that fit together. More precisely, for an integrated set of design parameters, the “needles are set on zero”. That is, the entrepreneurial organization has little or no staff, a loose division of labour, and a small managerial hierarchy. It is not

formalized, and makes minimal use of planning or training. It *has* a prime coordinating mechanism - direct supervision - carried out by its most important part, the strategic apex, or leader.

2. How does strategy in the entrepreneurial organization relate to the list of strategies given by Mintzberg in his Chapter 1 reading?

The strategy process in the entrepreneurial organization obviously fits with entrepreneurial strategy discussed in Chapter 1. It is based on individual vision. Intentions exist as the personal, unarticulated vision of a single leader, and so are adaptable to new opportunities. The organization is under the personal control of the leader; it is usually located in a protected niche in its environment. In fact, the environment and the organization are both dominated by the leadership

3. Do entrepreneurial firms seek out simple and dynamic domains, or do simple and dynamic industries require entrepreneurial organizations?

The answer is both. Most entrepreneurs seek out protected niches in environments which are simple enough for them to understand, and which they *do* understand. The good entrepreneurs like dynamic environments, too, because they like taking advantage of the opportunities that result from change. But environments that are simple and dynamic are well-suited for entrepreneurs. They have the ability to respond quickly to the dynamic changes. And their lean organizations usually out-perform the large stodgy bureaucracies with whom they compete.

4. How does large size fit (or not fit) into the concept of entrepreneurial organization?

Entrepreneurial organizations typically are not large. If the founder of a firm is still around when the firm becomes large, a variant on the entrepreneurial organization will exist in the large firm. The entrepreneurial strategy formation process is often used in large firms. This usually happens when large firms get into trouble. The turnaround typically begins with the appointment of a new leader. That leader's personal vision is the strategy that is followed as the firm begins to turn around.

5. What are the most positive aspects of the entrepreneurial organization? The most negative? Are there any antidotes for the latter?

The entrepreneurial organization's centralized decision-making roots strategic response in the leader's deep knowledge of the operations. It also allows for flexibility and adaptability - only one person need act. Another advantage is its sense of mission. Many people enjoy working in a small, intimate organization where the leader - often charismatic - knows where he or she is taking it; the result is often enthusiasm and an organization with which employees can develop a solid identification. One problem is that the leader may become enmeshed in operating problems and fail to attend to strategic issues. The opposite problem - over-enthusiasm about strategy and neglect of operations - is also common in entrepreneurial organizations. It is also a risky structure, depending on one person for coordination. He or she could become incapacitated, or he or she could become inflexible regarding change. Some people find the entrepreneurial organization too restrictive—only one person calls the shots. The risk of the one-person rule is probably the biggest weakness; this can be partially offset by succession planning.

6. *Is there truly such a thing as the “bold stroke” of the entrepreneur? How does this compare with “controlled boldness”?*

Students may differ on this question. The author says that the bold stroke of the entrepreneur is more like “controlled boldness”. That is, the ideas may be bold, but the entrepreneur executes them carefully. Another pattern of controlled boldness that has emerged from the research is one where the entrepreneur forges ahead for a time, then stops and consolidates. In another place in the reading, the author says that the entrepreneur must be willing to step into the void. This process is somewhat bold, since it calls on the entrepreneur to shed his or her conventional notions of how a business is supposed to function.

7. *The author states that the key to entrepreneurial strategy is intimate, detailed knowledge of the business. What are the implications of this for strategy-making in other types of organizations?*

Mintzberg's Chapter 5 reading, “Crafting Strategy”, compared strategy-making to pottery-making: involvement with the materials is crucial in each case. The straightforward implication is that managers in all kinds of organizational configurations need to keep in touch with what is happening below them, a point also forcibly made by Sayles (Chapter 7).

8. *In what sense is “the conception of a new strategy an exercise in synthesis”?*

In the mainstream model of strategy formulation, strategies come about as the result of analytical processes. The organization is intellectually broken down into its components, and a strategy is planned. Synthesis is the opposite process—the many things experienced by the strategist are collected, and when some of them seem like they might fit together in an interesting and lucrative way, the strategist puts them together. Mintzberg's main argument in his “Crafting Strategy” reading in Chapter 5 is that most strategy formation is synthetic, not analytic. The purest example of this point occurs in the entrepreneurial organization. The entrepreneur experiences the reality of the organization, then puts all these pieces together into a coherent, integrated strategy.

9. *How can it be that “the entrepreneurial approach is at the centre of the most glorious corporate successes”?*

Students may argue over this point. Many will say that the most glorious corporate successes have come about as a result of careful planning and analysis. Others will argue, as would the author, that most successful strategies have not formed from these processes. (Quinn makes this point explicitly in his Chapter 5 reading on logical incrementalism.) Planning and analysis are merely ways to operationalize strategies that have formed in other ways. One of the major “other ways” is the vision-driven entrepreneurial strategy process. Iacocca's turnaround of *Chrysler* and Jobs's foundation of *Apple Computer* are good examples.

10. *What is your opinion of the statement that “strategic change . . . seems to involve mindset before strategy”?*

Not all students will understand or appreciate this point. As Mintzberg has pointed out before (e.g., the Chapter 5 reading on crafting strategy), a strategy is really a *concept*. Before one can adopt a new concept (i.e., a new strategy), one must change one's mind. Hence the statement that “mindset must change before strategy can change.”

11. *The author talks about needing to be open and divergent, followed by needing to be closed and convergent. What do you think of his argument here?*

This is another way of talking about the unfreezing, change, refreezing model. The organization must change by being maximally receptive to new ideas. That is what the author means by needing to be open and divergent. But once the new concept has formed, it is just as crucial that it be pursued single-mindedly. The “obsessed” organization must go all out to implement the new concept. This is what Mintzberg means when he says “needing to be closed and convergent.”

12. *If good strategy-making in an entrepreneurial organization involves intimate knowledge of the industry, how can we tell whether a strategic manager is too involved in operating details, or is learning essentials of the business?*

This is a difficult question. It has no hard-and-fast answer. It may in fact be impossible to tell until after some *time* has elapsed. If the organization is successful in the long run, then the entrepreneur has probably spent the proper amount of time on strategic and operational concerns. Another barometer would be if the entrepreneur uses the knowledge he/she gains to set up the company in a strategically strong position, or if he/she simply spends a lot of time doing organizational tasks.

PORTER, "COMPETITIVE STRATEGY IN EMERGING INDUSTRIES"

Summary of Reading

Emerging industries are newly formed or reformed industries that have been created by technological innovations, shifts in cost relationships, emergence of new consumer needs, or other potentially viable business opportunities. “The essential characteristic of an emerging industry from the viewpoint of formulating strategy is that there are no rules of the game.”

Structural factors

Most relate to either the absence of established bases for competition or the initial small size and newness of the industry. Emerging industries are characterized by technological uncertainty, strategic uncertainty (no “right” strategy has been identified and there is poor information about competitors, customers, and industry conditions), high initial costs but steep cost reduction, embryonic companies and spin-offs, first-time buyers, short time horizon, and subsidies.

Early mobility barriers

These include proprietary technology, access to distribution channels, access to raw materials and other inputs of appropriate cost and quality, and risk (which raises the cost of capital). “The typical early barriers stem less from the need to command massive

resources than from the ability to bear risk, be creative technologically, and make forward-looking decisions to garner input supplies and distribution channels.”

Strategic choices

“The emerging phase of an industry's development is probably the period when the strategic degrees of freedom are the greatest and when the leverage from good strategic choices is the highest in determining performance.” There are many opportunities to shape industry structure. Externalities in industry development require striking a balance between self-interest and industry advocacy (e.g., promoting standardization). The roles of suppliers and channels are likely to evolve in a positive way as the industry proves itself. And as the industry does so, advantage may rest on things other than the original barrier-creators (e.g., may move from technology to mass marketing): mobility barriers shift.

Timing entry

Early entry involves risk, but also lower entry barriers and higher potential return. Early entry is appropriate in four instances: pioneer image is important, starting early on the learning curve, securing the loyalty of early buyers, and where cost advantages may be gained from early commitment. An emerging industry is attractive if its predicted *ultimate* structure promises above-average returns. Firms often enter because of industry growth, profitability of incumbent firms, or predicted large size. “But decision to enter must ultimately depend on a structural analysis”

Discussion Questions

1. How useful is Porter's idea of “rules of the game”?

“Rules of the game” is an interesting metaphor to describe the structural and dynamic characteristics of an industry. Like most metaphors, it contains some element of truth. The goings-on in an industry do resemble a competitive game to some extent, with opponents making “moves.” But, again, like most metaphors, it draws attention away from other interpretations. In this case, the idea of “rules” implies some code of proper behaviour that must be followed by every player. But even Porter concedes that in emerging industries, there are no rules. Indeed, one of the most interesting characteristics of emerging industries is that firms may participate in the writing of the rules. Moreover, some of the most successful firms are those which don't follow any kind of rules, or who break the rules.

2. How well does the author's description of “common structural characteristics” fit with the previous reading's idea that entrepreneurial organizations tend to work best in “simple and dynamic environments”?

The question of dynamism is clear—the description given by Porter has much dynamism: Technology is changing. Strategies are changing. Costs start high but drop. Buyer preferences are in a formative stage. Time horizons are short. The question of simplicity is more clouded, and could be argued either way. Perhaps if an entrepreneur got a handle on *the* significant factor in the environment, he/she could then deepen her/his understanding of it to the point of being a true expert. On the other hand, one could argue

that the points discussed by Porter are inherently complex, and there are many of them, so therefore the environment is inherently complex.

3. *Porter says the entry barriers in emerging industries centre on “the ability to bear risk be creative technologically, and make forward-looking decisions.” He says these are the reasons why newly-created companies are observed in these industries. What does he mean? How do these ideas fit with the concepts of entrepreneurial organization from the previous reading?*

He means that it is much likelier to find risk-taking, creativity, and forward-looking decisions in an entrepreneurial firm than in an established, bureaucratic firm. For the same reason, the latter kind of firm is unlikely to spin off smaller entrepreneurial firms. So most firms in emerging industries are newly-created, independent ones. This fits well with the concepts in the previous reading. There, Mintzberg talked about the entrepreneur's willingness to “step into the void”. He discussed how entrepreneurs are constantly searching for new opportunities. He mentioned “repetition”, a metaphor to represent how the entrepreneur's inspiration stems from “endless experience in a particular context”.

4. *How well could a skilled entrepreneur, atop an entrepreneurial organization, handle the strategic choices discussed by the author?*

At first glance, the strategic choices facing the leader of the firm in an emerging industry seem to be a tall order. But upon further reflection, they seem ideally suited to the kind of person Mintzberg discussed in the previous reading. One choice is the shaping of industry structure; an opportunistic entrepreneur would welcome the chance to shape things in a way that he/she could understand. Porter also says that the firm must be able to strike a balance between self interest and industry advocacy; this might be easier to accomplish for one person than for a committee in a larger-firm spin-off. Porter says that firms in this kind of industry must be ready to court suppliers and buyers as the industry changes. A good entrepreneur would probably welcome the opportunity to interact with industry players; he/she would learn more, and would have the chance to mould things to the right shape. Lastly, Porter says that the firm must be ready to recognize and react to shifting mobility barriers. As Mintzberg pointed out, handling this kind of discontinuity is something at which successful entrepreneurs excel. All in all, Mintzberg's entrepreneurial leader seems well suited to strategic management, as suggested by Porter, in emergent industries.

BHIDE, “HOW ENTREPRENEURS CRAFT STRATEGIES THAT WORK”

Summary of Reading

Comprehensive analytical planning doesn't suit start-ups. Entrepreneurs don't have the time and money, and too much analysis can mean that the opportunity is gone before it can be exploited. Studies show that few entrepreneurs do much planning and analysis, and those who do are no more likely to survive their first three years than people who

seized opportunities without planning. “Analysis can delay entry until it’s too late or kill ideas by identifying numerous problems.”

Good entrepreneurs don’t get into business without thinking, thought. It’s just that they have a quick and cheap method that takes up the middle ground. It has three elements:

1. Screen opportunities quickly to weed out unpromising ventures.
2. Analyze ideas parsimoniously. Focus on a few important ideas.
3. Integrate action and analysis. Don’t wait for all the answers, and be ready to change course.

Screening out losers

Entrepreneurs get lots of ideas and must screen out the bad ones to be able to spend appropriate time on the good ones. This requires not data but judgment and reflection. “New ventures are usually started to solve problems the founders have grappled with personally as customers or employees.”

Profitable survival requires an advantage based on either a creative idea, superior execution, or both. Examples of creative ideas: innovative product, innovative process, or unique insight on some external change. But superior execution is necessary, especially if the edge is something that can easily be copied. Examples of superior execution: establishing a brand name, or just doing a mundane thing faster or better than others. “Ventures that obviously lack a creative concept or any special capacity to execute . . . can be discarded without much thought.”

Successful start-ups don’t need an edge on every front, and capacity varies among entrepreneurs. Nor is there a typical entrepreneurial profile, either on personality or behavior. “In assessing the viability of a potential venture . . . each aspiring entrepreneur should consider three interacting factors:”

1. Objectives of the venture

What is the goal? Large size? Niche? Quick profit? Large size usually requires a revolutionary idea, big money and strong organizations. It requires a balance among the interests of customers, investors, employees, and suppliers, and the organizational skills to build a large organization. A large amount of technical know-how is also often needed.

Niche efforts don’t need extraordinary ideas, just solid products. “A niche market will rarely justify the investment required to educate customers and distributors about the benefits of a radically new product,” or even radically new production and distribution methods. The key management skill is being able to do more with less.

2. Leverage provided by external change

“Exploiting opportunities in a new or changing industry is generally easier than making waves in a mature industry.” It’s hard to take away business in a mature industry. There are advantages in new markets:

- Rivals are rough around the edges.
- Customers tolerate inexperienced vendors and imperfect products.
- There are opportunities to profit from shortages.
- Things that can go a long way:
 - small insights
 - marginal innovations
 - little skill or expertise
 - willingness to act quickly

Customers may even be hesitant to back radical products, preferring to wait until things settle down. There may be an advantage for the entrepreneur to go with industry standards.

There have been numerous examples of this in computer hardware, software, training, retailing, and systems integration.

3. Basis of competition: Proprietary assets versus hustle

Success in some industries relies on assets—patents, location, or brands. Good management practices are not enough to propel a start-up over structural barriers. By contrast, companies in fragmented industries cannot establish an asset-based advantage, but can achieve high profit through exceptional service. They rely on “hustle.” Personal selling skills can be very important, as are institution-building skills such as recruiting stellar performers and reinforcing values.

Gauging attractiveness

Potential venture should be screened for attractiveness—risks and rewards—compared to other opportunities. One factor is capital requirements. Entrepreneurs should keep these low if they don’t have access to capital markets (e.g., sudden cash need because one large customer doesn’t make a timely payment). They should favor ventures with low capital intensity that can fund themselves out of cash flows. They should look for a high margin for error—low fixed costs and simple operations can overcome technical delays, cost overruns and slow sales.

Entrepreneurs shouldn’t try to undertake more than one project at a time; they should be exclusively committed to their one venture. Costs of shutting down should be low and payback should be quick. The option of cashing in by selling all or part of the equity is desirable. Ventures must fit with values of the entrepreneur.

Small endeavors can be more profitable than large ones. Founders keep a larger share of the profits and there is no dilution of equity through multiple rounds of financing. But

entrepreneurs must be willing to dominate in a backwater, which will be profitable but not intellectually stimulating or glamorous. Another thing to avoid: the “land of the living dead,” a niche that is not profitable enough to support a business but which cannot be exited because of too much investment.

Parsimonious planning and analysis

Good entrepreneurs minimize their resources spent on researching ideas. They do only as much as seems useful and are not afraid to make subjective judgment calls. There are some uncertainties that no amount of research will resolve. This is especially true for new products or new ideas. Revenues are hard to predict, but insight might be gained by thinking about how customers might buy and use the product or service.

Entrepreneurs must exert themselves to create barriers that avoid their accidentally enriching their competitors. They must also guard against servicing a niche whose costs exceed any potential revenue. If cost disadvantage is significant, then the performance provided must be superior. When addressing a small market, entrepreneurs must make sure that all concerned get a high, quick or sustainable payoff.

“Entrepreneurs who seek to leverage factors such as changing technologies, customer preferences, or regulations should avoid extensive analysis.” Research in these circumstances is unreliable, and quick response is undercut by analysis. One exception: “analyzing whether or not the rewards for winning are commensurate with the risks.”

Integrating action and analysis

Standard operating procedures in large, established businesses often dictate a more deliberate approach to evaluating new ventures. The latter must fit with existing activities. But “entrepreneurs . . . don’t have to know all the answers before they act. In fact, they often can’t easily separate action and analysis.” The benefits of acting before analysis:

- Builds confidence in self
- Builds confidence in others
- More robust, better informed strategies result from use of prototypes (as opposed to market research)

Handling analytical tasks in stages

Good entrepreneurs do only enough research to justify the next action or investment.

Plugging holes quickly

Good entrepreneurs look for solutions as soon as problems begin to occur. Any analysis that is done should be aimed at finding out what to do next, not at what *not* to do (which is the more typical role of analysis).

Evangelical investigation

“Entrepreneurs often blur the line between research and selling.” They get prototypes into the hands of customers and potential customers. They seek commitment from just about anyone they meet—commitment to buy, or to invest. This subjective combination of listening and selling does not produce statistically significant market research, but “the deep knowledge and support of a few is often more valuable than broad, impersonal data.”

Smart arrogance

Good entrepreneurs’ ability to act on sketchy plans and incomplete information is sustained by an almost arrogant self-confidence. But they must have the smarts and flexibility to recognize mistakes, to learn, and to change strategies when necessary. Things don’t always evolve as initially conceived. Entrepreneurs must rework concepts when prospects don’t buy, and they must sell to people who are interested even if they weren’t initially prospects.

“The apparently sketchy planning and haphazard evolution of many successful ventures . . . doesn’t mean that entrepreneurs should follow a ready-fire-aim approach. Despite appearances, astute entrepreneurs do analyze and strategize extensively. They realize, however, that business cannot be launched like space shuttles, with every detail of the mission planned in advance. Initial analyses only provide plausible hypotheses, which must be tested and modified. Entrepreneurs should play with and explore ideas, letting their strategies evolve through a seamless process of guesswork, analysis, and action.”

Discussion Questions

1. *What is your reaction to the author’s opening assertion that “a comprehensive analytical approach to planning doesn’t suit most start-ups”?*

Some students who have been steeped in the “business school religion” of analysis may react negatively to this statement. If they have spent their business school careers learning the value of analysis, why shouldn’t an entrepreneur benefit as well? But the author provides the answer. Typical entrepreneurs lack the time and money for a detailed strategic analysis. They also run the risk of missing the opportunity as they carry out the time-consuming analysis. He also cites research, showing that entrepreneurs who planned were no more successful than those who didn’t. Entrepreneurs *do* think about their ventures ahead of time, but not with detailed analytical planning approaches.

2. *Why shouldn’t an entrepreneur screen out losers by using more data?*

What is needed is judgment and reflection. Most ventures start to solve problems that the owner grappled with as an employee or customer. He or she already knows what is needed. More data is simply not necessary. What *is* necessary is either a good new idea, a superior ability to execute the venture, or both.

3. *“Successful start-ups,” says the author, “don’t need an edge on every front.” What do you think?*

At first glance, this sounds like heresy. But, upon reflection, it’s not that different from what theorists say about strategy in large firms. You don’t need a distinctive competency in *everything*, just in one or two things. The author points out here that the advantage could come from a great new idea, or it could simply come from the brilliant execution of a completely non-original idea. Some students may also be heartened by the author’s assertion that successful entrepreneurs vary greatly in personality type. Some are charismatic, many are not. Some are gregarious, some taciturn. Personality doesn’t seem to matter.

4. *Why are the objectives of the venture a useful mechanism for screening out losing ideas?*

The scale and type of idea will point to different requirements for success, thereby helping screen out ideas. For example, a goal of building a large organization quickly typically requires a revolutionary idea. Any big idea typically requires big money and strong organizations. Niche markets don’t need big ideas, but may need low costs that can help create a profit even in a small market. A really revolutionary idea may even be a hindrance in a niche market, whose occupant may not be able to afford to educate customers about the radical idea.

5. *What are some of the advantages of entering a new market?*

The author does a nice job of describing the benefits of new markets. Rivals are rough around the edges, so your company doesn’t have to be super-polished. Customers are more tolerant of “inexperienced vendors and imperfect products,” mainly because their expectations are lower. Being willing to hustle and do the small things right can go a long way.

6. *How does the “basis of competition” help screen out ideas?*

If the basis of competition is proprietary assets, you would screen out ideas that require them if you don’t have them, or keep them in if you do. Examples would be pharmaceuticals, luxury hotels, and some consumer goods. Similarly, if you don’t have a great idea, but you’re willing to hustle, then you would keep ideas that don’t need proprietary assets. This would work in many fragmented service industries.

7. *How should an entrepreneur gauge the attractiveness of a venture?*

He or she should examine the risks and rewards compared to other ventures. A factor to always consider is capital requirements. In general, entrepreneurs should favour ventures that are not capital intensive and whose margins are large enough to support growth through cash flows. Risk is lowered as well in ventures that have simple operations and low fixed costs.

The author makes an interesting point; a venture should be attractive enough to command all of the entrepreneur's time and effort. Otherwise, she or he will take on more than one project and they will all suffer from lack of attention. Related to this is the idea that the entrepreneur should be able to shut the venture down "cleanly" if it starts to fail, so as to avoid losses of time, money or reputation. One last attractiveness factor is the potential for selling the equity easily; high liquidity helps the potential entrepreneur escape to another venture.

8. *What is your reaction to the author's comments about the uselessness of market research?*

The author says that focus groups are not good at predicting demand for products that are truly novel. Focus groups dismissed, for example, the usefulness of copiers. Revenues are also very hard to predict. Understanding how potential customers might use or buy the product can be useful. They might especially help to identify who the buyers would be and then what their needs might be.

9. *What are the potential problems with niche markets?*

When they think about it, students may be surprised to realize that niche markets may simply be too small to sustain themselves. Even a niche must be large enough to support the sales needed to make a profit. If a niche market is too small to support a direct sales force, it may also be too small to support sales representatives. Large companies that decide to invade a niche can often do so with marginal extensions of their lines. A small start up needs to really "wow" the customers in the niche because typically its costs will be higher than its larger competitor's.

10. *What is your reaction to the author's assertions about how entrepreneurs must integrate action and analysis?*

The author depicts the typical decision-making process in the large firm in unflattering terms. Essentially, the large firm must see how new ventures fit with existing operations. This usually necessitates extensive analysis. Only then will the large firm act.

The entrepreneur, by contrast, has few facts available, so there is really not much to analyze. He or she must act and then assess the consequences of that action. One benefit is that acting builds confidence in oneself and by others. Seeing someone taking on risk can energize others. And even though mistakes can result from action, it can also generate better information than sterile research can.

11. *What is your reaction to the author's assertion that entrepreneurial strategies "evolve through a seamless process of guesswork, analysis, and action"?*

"Guesswork" may strike some business school students as rather unprofessional. Yet the author's image here is not that different from Mintzberg's in "Crafting Strategy." As he says, launching a new venture is not like launching the space shuttle. You don't have to have all the details worked out ahead of time, and you don't need high precision. You need to have a good idea or the ability to hustle, or both. And you need to be ready to act

with intelligence and to learn from the action. Good entrepreneurial strategy is the essence of emergent strategy.

CHAPTER 14: MANAGING MATURITY

MINTZBERG, "THE MACHINE ORGANIZATION"

Summary of Reading

The basic structure of this organization is bureaucratic. Its operating work is characterized by highly specialized, routine tasks, and there is very formalized communication throughout the organization. Operating units are large and are formed on a functional basis. Decision-making power is relatively centralized, and there is an elaborate administrative structure with a sharp distinction between line and staff.

Operating core and middle line

Workflow is highly rationalized, tasks are simple, skills and training are minimal, jobs are narrowly defined, emphasis for coordination is on the standardization of work processes, and workers have little discretion. Middle line managers have three functions: handling the disturbances that arise in the operating core, working with staff analysts to incorporate their standards down into the operating units, and supporting the vertical flows in the organization—action plans down, feedback up.

Technostructure

This houses the staff analysts who do the standardizing. It is the key part of the structure, because the machine organization depends primarily on the standardization of its operating work for coordination; rules and regulations permeate the entire system. There is an obsession with control, which has three consequences: attempts are made to eliminate all possible uncertainty, the structure is ridden with conflict (and the control systems are required to contain it), and as many support services as possible are kept in-house.

The strategic apex

Fine-tunes the machine, attempting to find ever-greater efficiency and keep the structure together despite the pervasive conflict. Intervenes frequently in middle line activities to ensure coordination there. Formal *and* informal power end up in the strategic apex.

Conditions of the machine organization

Simple and stable environments because the work associated with complex environments cannot be rationalized into simple tasks, and the work associated with dynamic environments cannot be predicted, made repetitive, and standardized. The configuration is typically found in mature organizations (large and old) and in organizations that use regulating technical systems (e.g., mass production firms, government agencies). The environment may be stable because the organization has acted aggressively to stabilize it (advertising, long-term supply contracts, cartels, vertical integration, etc.) i.e., the organization tries to become a closed system, immune to external influence. Machine organizations are pervasively regulated, so they can be used as *instruments* by outsiders. Growth is this organization type's major goal.

Issues

Machines may be precise, reliable, easy to control and efficient. But machine organizations include human beings, so the analogy breaks down. The meaning of work is often lost, leading to absenteeism, turnover, sloppy workmanship, strikes, even sabotage. Since the operating core is not designed to handle conflict, the human problems spill out into the administrative structure. These two parts mirror each other's narrow specialization, leading to problems of coordination and communication. Coordination problems lead management to use even more standardization, but this only aggravates the coordination problems at the administrative centre, since standardization is poorly suited to the non-routine problems there. Management responds by using direct supervision in the form of "bumping" problems up the hierarchy. The structure is ill suited to mutual adjustment, and encourages the building of private empires.

Formation of strategy

"Strategy in the machine organization is supposed to emanate from the top of the hierarchy where the perspective is broadest and the power most focused." An integrated strategy is formulated at the top. Implementation follows as the plan is handed down the hierarchy. This is the theory. Mintzberg shows the practice to be very different, using the examples of a supermarket chain and airline.

In the supermarket chain, planning operated as programming. "[Planning] did not formulate a strategy.... What planning did was justify, elaborate, and articulate the strategy that already existed in [the CEO's] mind. Planning operationalized his strategic vision, programmed it. It gave order to that vision, imposing form on it to comply with the needs of the organization and its environment. Thus planning followed the strategy-making process, which had been essentially entrepreneurial...Is there such a thing as 'strategic planning?' I suspect not. To be more explicit, I do not find that major new strategies are formulated through any Hymnal procedure. Organizations that rely on formal planning procedures to formulate strategies seem to extrapolate existing strategies . . . or else copy the strategies of other organizations."

Planning proceeds from the machine perspective, which leads to a fallacy. "Assembly lines and conventional machines produce standardized products, while planning is supposed to produce a novel strategy....Planning is analysis oriented to decomposition, while strategy-making depends on synthesis oriented to integration. That is why the term 'strategic planning' has proved to be an oxymoron."

Thus, *planning* in the machine organization functions to programme strategies already present, i.e., it codifies a given strategy (including clarification and articulation), elaborates it into sub-strategies, and translates it into budgets and objectives. *Plans* function as a medium for communication, and devices of control. *Planners* function as "strategy-finders", analysts (carrying out ad hoc studies to feed into strategic models), catalysts (encouraging strategic thinking, informal strategy-making). These roles suggest two different orientations for planners: as highly analytic, convergent thinkers who bring order to planning ("right-handed planners"), and as unconventional, creative, divergent

thinkers who want to open up planning (left-handed planners). Thus, a planner for each side of the brain!

Strategic change in an automobile firm

If planning is not strategy, then how does the machine organization effect strategic change? This section discusses *Volkswagenwerk's* painful strategic change. The story suggests the great force of bureaucratic momentum, both physical investments that were difficult to change, and psychological patterns that were difficult to break. Moreover, VW was so tightly integrated that strategic change was impeded. "Change an element of a tightly integrated gestalt and it *disintegrates*. Thus does success eventually breed failure."

Bottleneck at the top

Strategic changes generally have to be achieved in a different configuration, if at all. Problems get "bumped" to the top. As long as the environment is smooth, this works adequately. But when the environment is turbulent, which is when strategic change is most needed, the number of problems increases, and top management becomes overloaded. This leads to either no change or ill-considered change. The highly departmentalized nature of machine organizations exacerbates this problem. MIS systems don't really help, because strategy-making uses soft information, which is not provided by MIS. The best way around these problems is to bypass MIS and use networks of informal contacts. Unfortunately, this takes up time and violates the formality premises of the machine organization. Top managers are "thus reduced to acting superficially, with inadequate, abstract information."

The formulation/implementation dichotomy

The basic problem is the separation of formulation and implementation. For this to work, top management needs full and sufficient information, and the environment must remain stable (or at least predictable). But organizations need new strategies at precisely the times when things have changed unpredictably. And machine organizations *misinform* top management during such times. This all amounts to a need to collapse the formulation/implementation dichotomy in the machine organization during these times. This can be accomplished in two ways. *The formulator implements*: power is concentrated at the top; leader comes up with concept and has the power to personally order others to carry it out; this is the entrepreneurial configuration, at least at the apex. Or, *the implementors formulate*: power is concentrated lower down; people in touch with information take individual actions and patterns form; this is the innovative configuration.

Strategic revolutions in machine organizations

"We conclude . . . that the machine configuration is ill-suited to change its fundamental strategy, that the organization must in effect change configuration temporarily in order to change strategy Either it reverts to the entrepreneurial form ... or else it overlays an innovative form on its conventional structure." This is not surprising, since machine organizations are specialized instruments, designed for production, not adaptation. They are performance systems, not problem-solving ones; their forte is efficiency, not innovation. Overall, machine organizations seems to follow a "quantum theory": they

pursue set strategies for long periods, interrupted by short bursts of change, called “strategic revolutions”.

Organization taking precedence in the machine organization

“It is organization—with its systems and procedures, its planning, and its bureaucratic momentum—that takes precedence over leadership and environment in the machine configuration.” The organization typically forces both the environment and its own leadership into modes that support it. This works adequately during stable times. In times of change the organization falters...The machine organization is a configuration, a species, like the others, suited to its own context but ill-suited to others. But unlike the others, it is the dominant configuration in our specialized societies.” As long as there is a need for efficient, mass-producing organizations, this configuration—and its problems—will remain with us.

Discussion Questions

1. *What's your reaction to the author's description of the basic structure of the machine organization?*

Most students will react negatively to Mintzberg's description of the machine organization. They will not like the highly specialized, routine operating tasks, or the very formalized communication throughout the organization. Even less attractive to them will be how the work flow is highly rationalized, tasks are simple, skills and training are minimal, and jobs are narrowly defined. Perhaps most onerous is the emphasis for coordination on the standardization of work processes. Lastly, freedom-loving students will not like how little discretion workers have. Nevertheless, students will have to be reminded that machine organizations are responsible for bringing us the low-cost products to which we have become accustomed. Their efficiency is what has made most modern conveniences possible.

2. *In the machine organization, why are the units in the operating core large, and why are the middle line units small?*

If you have a machine, it makes more sense to create a component with many interchangeable parts that are easily replaced, than it does to create one complex component that must be replaced in its entirety. This is the logic behind the great amount of specialization that exists in machine organizations. And that is why the units (“components”) are large. The large number of rules and the standardized procedures allow the middle managers to oversee the large numbers of people in these units.

3. *How is it that “without the standardizers [in the technostructure]...the structure simply could not function”?*

Machines work best when everything in them is standardized. Likewise, machine organizations only work when everything in them is standardized. That is what the technostructure does. In fact, without the standardizers of the technostructure, there would not be the machine-like quality to the machine organization, and it would be one of the other configurations.

4. *Why is the sharp distinction between line and staff seemingly inevitable in the machine organization?*

A huge amount of specialization characterizes the machine organization. Everyone in it is reduced to a part in the machine. This specialization extends not only to distinctions among line units, but also to the fundamental distinction between line and staff.

5. *What is your opinion of the author's two "central facts" reflecting the control mentality in machine organizations?*

The first central fact is to "eliminate all possible uncertainty." The second is that machine structures are ridden with conflict. Most students will agree and sympathize with the second. That conflict could exist in such a seemingly repressive structure will not come as a surprise. But many will be slightly surprised by the first point. "Uncertainty elimination" is not what most students think of when they think of management. Yet, it is an obsession in most machine organizations (which are perhaps the dominant organizational form) because uncertainty can gum up the works of the machine.

6. *How, and why, is there so much power at the strategic apex of machine organizations?*

The strategic apex is the only place where discretion is allowed. Top managers must keep the whole system working. They must resolve conflict. They must fine-tune efficiency. They are the ones who make major decisions. In other words, one consequence of standardizing everything else is that the one non-standardized part, the strategic apex, has much work to do.

7. *Why are machine organizations so often found in government? Is this a good thing, as Max Weber thought?*

One reason is that the work of many government agencies is routine, e.g., Social Security Administration, Postal Service, IRS. But a more important reason is that government agencies need to be accountable to the public for their actions. Everything they do must be seen to be fair, and so they proliferate rules and regulations. Despite everything people may dislike about machine organizations (particularly those who work in them), there is little doubt that for providing mass services in a fair manner, this configuration is unexcelled.

8. *The author says that machine organizations are found in simple, stable environments. They even try to become closed systems. Why are these things so?*

In machine organizations, information is funnelled to the top, where decisions are made. Along the way, much of the original information's richness is filtered out. If the environment were complex, a great amount of detail would never reach decision makers, and the organization would fail to adapt. If the environment is simple, then the information processing and decision-making tasks are greatly simplified. It takes a great amount of energy and other resources to set up a machine organization. For example, there are many specialized tasks, which follow standardized procedures, and so on. The organization needs to work in one mode for an extended period of time in order to recoup the expense and maximize the organization's efficiency. If the environment were dynamic, one of two things would happen, neither of them good: (1) the organization would have

to change too often, and efficiency would be lost, or (2) the organization would stick with its inappropriate structure and would fail to adapt to the environment.

9. *What is your reaction to the section on “human problems in the operating core”? How can it be said that “modern man seems to exist for his systems”?*

Most students will agree with the critical tone of this section. The full-blown machine organization is indeed the logical conclusion of Taylorism. The point about “modern man and his systems” is an interesting one. We have invented and implemented the machine organization to help us produce the enormous amount of goods and services needed by our consuming public; there's no escaping our need for such organizations. Yet many of the people who work in them (even those who themselves purchase the televisions, automobiles, and VCRs produced by machine organizations) don't like working in them. We *hate* them but we need them. We set up the systems we must have, but they ultimately enslave us.

10. *What is the “irony” of control to which the author refers when discussing coordination problems in the administrative centre?*

Machine organizations are highly specialized in their operating cores. This means that their middle lines need to be just as specialized. The result is problems of coordination and communication among the middle line managers. The consequence of this is less adaptability and less control, which is indeed ironic.

11. *Why does the machine organization end up using so much direct supervision at the top?*

Standardization, the dominant characteristic of the MO, is adequate for regulating the day-to-day functioning of the organization, but it is not well suited to the non-routine problems that are handled by the middle line. Consequently, these are “bumped” up the hierarchy. They are ultimately handled by the strategic apex, which must resort to direct supervision to resolve these issues.

12. *How realistic is the author's discussion of how strategy-making in machine organizations is supposed to happen?*

Students may differ in their assessments of this subsection. Some students will say that this is exactly how strategy is made in machine organizations. It is an analytical process that formulates strategy near the top of the organization, usually articulated in a plan. After this, the plan is handed over to lower-level participants for implementation. Other students, remembering some of the readings from earlier chapters, may be skeptical. For example, the Chapter 4 readings, “Crafting Strategy” and “Logical Incrementalism” both point to very different ways for strategy formation to occur in large, complex organizations.

13. *In discussing the first Steinberg (supermarket chain) plan, the author uses words like, justified, elaborated, articulated operationalized, and programmed. But he never uses the word “formulated”. What is your reaction to this, given the widespread assumption that planning is the way to make strategy?*

This is one of the key passages in the reading. Mintzberg wants students to know that planning is *not* the method by which most strategies are formed in machine organizations. It serves a useful purpose, but that purpose has nothing to do with formulating strategy. It has to do with helping to implement strategy, to operationalize it once it has been conceived in some other way. It also has to do with justifying it, which is an often-overlooked function of planning. No doubt students will be surprised by this passage.

14. *The author says that he doubts the existence of a planning mode of strategy-making, saying “we do not find major new strategies formulated through any kind of formal procedure”. He says that “the term 'strategic planning' has proved to be an oxymoron”. What do you think of these statements?*

These are strong statements. Mintzberg is known for overstating things to make his point. In this case, he may be stating the point accurately. There is no evidence that planning is a method that leads to new strategies. It is a means to operationalize strategies developed in other ways, hence his characterization of it as an “oxymoron.” Some students may accept this, but no doubt many will take issue with Mintzberg on this score.

15. *How might formal planning discourage creativity and impede strategic thinking?*

Formal planning is a mechanism for patterning the organization so that it runs smoothly, machine-like. The obsession, with control, that characterizes machine organizations is reinforced by formal planning. Hence, formal planning drives strategy to perpetuate itself. It focuses the organization away from new ideas, so it discourages creativity. It tends to drive out entrepreneurial and innovative activities, hence it impedes strategic thinking (in the sense of strategy as something insightful and innovative).

16. *What is your opinion of the author's thoughts on the role of planning?*

Mintzberg says that the greatest contribution planning can make is to program strategies already present. It does this by (1) codifying the given strategy (including clarification and articulation); (2) elaborating it into sub-strategies; and (3) translating it into budgets and objectives. Even if students do not accept these as the primary contributions of planning, they will probably recognize them as plausible roles for it to play.

17. *What is your opinion of the author's thoughts on the role of plans?*

The author says that the primary role of plans are as media for communication and devices for control. As communications media, plans inform people of intended strategy and its consequences. As control devices, they specify what roles departments and individuals must play in helping to realize strategy. They then can be used to compare the patterns realized with the intentions specified. In other words, plans belong under implementation, not formulation, of strategy, even though they are usually classified in

exactly the opposite way. Some students will argue for this more traditional view, while others will side with Mintzberg.

18. *What is your opinion of the author's thoughts on the role of planners?*

Mintzberg says that planners can play three useful roles. First, they may play a role in finding strategies. That is, if strategies truly do emerge in organizations, then one thing planners could contribute would be to help identify these patterns, helping to formalize them and make them deliberate. Second, planners can be analysts, carrying out needed studies. Third, planners can be catalysts, encouraging strategic thinking, supporting informal strategy-making. Some students will not like this set of roles. They are too much of a come down from the very powerful image of the planner as the formulator of strategy. Other students will be encouraged by this description. Mintzberg describes a very realistic, and useful, set of contributions that can be made by planners. These students will find it more interesting and more challenging to be catalysts and finders of strategy.

19. *What is your opinion of the author's thoughts on planners for each side of the brain?*

Mintzberg says that there are two types of planners. The *right-handed planner*, is partial to the rational processes identified with the brain's left hemisphere, and is therefore highly analytic and convergent, dedicated to bringing order to the organization. The right-handed planner programs intended strategies, using plans for communication and control. This planner carries out rigorous studies. The *left-handed planner* is less conventional, a creative, divergent thinker who is inclined toward the intuitive processes which characterize the right side of the brain, and therefore seeks to open up the strategy-making process. He or she is a soft analyst, tending to conduct quick and dirty studies, finding strategies in strange places, trying to encourage others to think strategically. Some students may find all of this a bit far-fetched, but there is evidence behind its validity. As Mintzberg points out, some organizations may need to emphasize one type or the other, but most will need a few of each.

20. *What does the author mean when he says "success can breed failure"?*

As an organization becomes more successful, it grows. To keep itself under control, the larger organization must become more bureaucratic. As it becomes more bureaucratic, it becomes more integrated. As it becomes more integrated, it becomes more efficient. This makes it even more successful, for a time at least. Unfortunately, the integration and efficiency make the organization difficult to change. As the author puts it, "Change an element of a tightly integrated gestalt and it *disintegrates*." The efficiency and integration that create success ultimately make the organization prone to failure.

21. *Why does the MIS not solve the machine organization's information needs during a period of environmental turbulence?*

The major problem here is the slow transmission speed of most information in management information systems. In a turbulent environment, the top manager cannot afford to wait MIS also tend to favour lean, hard data, when research has shown that rich information is what top managers use in formulating strategy. In turbulent environments, that kind of information is particularly valuable, but is not provided by the typical MIS.

22. Mintzberg says that strategic change in machine organizations comes about by abandoning that structure and temporarily assuming an overlay of either the entrepreneurial organization or the innovative organization. What is your reaction to this? What are the implications of this?

Students will be surprised by this. Most will have assumed that machine organizations develop strategy using a mechanism, that like planning, is more in tune with the configuration's machine-like elements. Some may even be skeptical of or critical of Mintzberg's views on planning and its use in machine organizations. Students will have to be reminded that Mintzberg *does* think that planning is useful. It's just not useful for coming up with adaptive strategies at those times when the organization really needs them. It is useful for helping machine organizations *carry out* their strategies. The implications of these views are clear, even if they are rarely acknowledged or followed: Do not dismiss the contributions to strategy development that can be made by entrepreneurial or innovative thoughts and actions. Recognize the limitations of planning. Do not be discouraged or scornful if ideas to lead you out of a strategic morass come from somewhere other than your planning staff. Look for strategies anywhere where you can find them.

23. What is the significance of the subsection that discusses "strategic revolutions in machine organization" ?

Machine organizations do not re-set their strategies smoothly. They tend to hold on to a strategy for a long period of time, then go through a relatively brief period of change, then hold on to *that* strategy for a long stable period, then change wrenchingly again, and so on. This finding has several significant implications. First, managers of machine organizations should not be discouraged if their organizations exhibit this pattern; it is the normal one. To be sure, we might *want* our machine organizations to adapt more smoothly, but the research evidence shows this to be unlikely. Second, top management in machine organizations need to become just as skilled as the good entrepreneurs at noticing the important discontinuities in their environments. It is at those points that the revolutionary change needs to take place. Third, those same managers should realize that these revolutions are unlikely to come about as the result of formal planning processes; the latter tend to prolong the status quo, or else simply copy the industry recipe. Fourth, revolutions are likely to come from the top managers acting entrepreneurially, or champions lower down acting entrepreneurially, or small groups of people lower in the firm acting innovatively.

ABELL AND HAMMOND, "COST DYNAMICS: SCALE AND EXPERIENCE EFFECTS"

Summary of Reading

All things being equal, businesses with a large *market share* are more profitable than their smaller-share competitors. An important reason for this is that high-share firms have *lower costs*. These are partly because of economies of scale, and partly because of the experience effect (defined as cumulative number of units produced).

Scale effect

Large businesses have the potential to operate at lower unit costs. Large-scale manufacturing facilities can be built at lower per-unit costs, and can be operated more efficiently, than smaller ones. The operating economies apply to other cost elements, like promotion, sales, distribution, administration, R&D, and service. Large size doesn't assure scale benefits; it must be supported with appropriate strategies.

Experience effect

Applies to all value-added costs—manufacturing, administration, sales, promotion, distribution, purchased components, etc.

Sources of the experience effect:

- Labor efficiency
- Work specialization and methods improvements
- New production processes
- Getting better performance from production equipment
- Changes in the resource mix
- Product standardization
- Product redesign

This list illustrates that experience-based cost reductions don't occur by chance, but by concerted effort.

There is overlap between scale and experience effects, since increases in size increase experience. The distinction is not too important.

Prices and experience

One would expect costs and prices to fall steadily and together. In practice, prices start briefly below cost (development phase), then cost reductions exceed price reductions (price umbrella), until prices suddenly tumble (shakeout); ultimately the price and cost curves parallel (stability).

Strategic implications

“In industries where a significant portion of total cost can be reduced due to scale or experience, important cost advantages can usually be achieved by pursuing a strategy geared to accumulating experience faster than competitors. (Such a strategy will ultimately require that the firm acquire the largest market share relative to competition.)”

The cost leader has a great advantage. Followers' costs must decrease at the same rate or they will be eliminated from the market. The best time to seize the advantage is at the start, when experience doubles quickly. In fast-growing markets, firms must act aggressively. In slow-growing markets, firms must gain their advantage more carefully.

Efficiency vs. effectiveness: limitations to strategies based on experience or scale

"The selection of a competitive strategy based on cost reduction due to scale or experience . . . is the selection of cost-price *efficiency* over non cost-price *effectiveness*." Firms must be careful not to sell low-price products that no one wants.

If a firm can answer "yes" to these three questions, then pursuing an efficiency strategy is probably feasible:

1. Are scale or experience advantages available?
2. Are there market segments that will respond to low prices?
3. Does the firm have the resources it needs to achieve cost leadership?

Once having made the decision, "a firm must guard against going so far that it loses effectiveness, primarily through inability to respond to changes Thus the challenge is to decide when to emphasize efficiency and when to emphasize effectiveness, and further to design efficiency strategies that maintain effectiveness and vice versa"

Discussion Questions

1. *What is the link between market share and profitability? What is your opinion of the authors' explanation for this link?*

The authors say that, other things being equal, businesses with a large *market share* are more profitable than their smaller-share competitors. An important reason for this is that high-share firms have *lower costs*. These are partly because of economies of scale, and partly because of the experience effect (defined as cumulative number of units produced). Having a larger share gives these firms the luxury of producing on a larger scale, which is usually cheaper. They also have the opportunity to accumulate more experience, which research has shown tends to reduce costs.

Most students will probably accept this, but it is important to remind them of Pascale's criticism from his "Honda Effect" article (Chapter 5). Not all cost reductions are based on scale or experience. At *Honda*, for example, lower costs were based on better design. This was not a function of experience, as defined by the authors (i.e., a doubling of cumulative output). It was the result of innovation by Mr. Honda.

2. *What is “economy of scale”? Does it apply only to manufacturing?*

Economy of scale is the production of items at a lower per-unit cost as the size of the facility increases. It certainly applies to manufacturing, but to other things, as well. The authors point to marketing, sales, distribution, administration, R&D, and service. They give an example of advertising for a 30-unit supermarket chain, pointing out that it would need “much less than three times as much advertising as a chain with 10 stores.”

3. *What is the “experience effect”? Is it relevant in a non-manufacturing business, especially a service business?*

The Boston Consulting Group popularized the experience effect or experience curve—each time cumulative volume of a product doubled, total value-added costs fall by a constant and predictable percentage (usually somewhere between 10 and 20 percent).

It is not clear whether the experience effect applies in a non-manufacturing context. The problem is the definition of experience—the doubling of cumulative output. Presumably, if the output of a service business could be measured in units, it would be possible to find out if the cost of providing the service fell by “a constant and predictable percentage.” Some of the experience effect sources would still apply—labor efficiency, work specialization and methods improvements, changes in the resource mix, and perhaps even “service standardization.”

4. *How does the experience curve differ from the learning curve?*

The learning curve is usually applied to individuals, and it measures how much additional knowledge about a particular subject is learned as time goes by. It typically starts with a burst of new knowledge gained, followed by some peaks and valleys of learning, and ends with “new knowledge acquisition tapering” off.

The experience curve is completely different. As mentioned above, it is defined as the “constant and predictable percentage” of cost reduction that accompanies each doubling of cumulative output.

5. *Why is it not too important to separate scale and experience effects?*

This question may stimulate discussion, because not all students will agree with the authors that this is an unimportant distinction. They say this because scale and experience are *inter-correlated*. Experience tends to accumulate faster in those firms that are large; those same firms are the ones who benefit from economies of scale. Trying to keep these inter-correlated things separate is unimportant.

Students who disagree with this will probably have two arguments. First, the authors say that they believe that experience arises from “ingenuity, cleverness, skill, and dexterity.” These are valuable and important things that have nothing to do with size, and should be prized on their own merits. Second, firms that have fallen behind in market share cannot hope to compete on size and scale. They probably cannot compete on the basis of experience, either, at least not as it is defined in this reading.

But they *may* be able to benefit from “ingenuity, cleverness, skill, and dexterity,” and would undoubtedly want to know how to separate those from scale effects.

6. *What are the advantages and disadvantages of seeking to be the industry leader? Which way do you fall on this question? How does your answer differ if the industry is growing quickly? If it is not growing?*

The advantage is great if leadership is achieved. The industry cost leader is in a position to drive higher-cost competitors (by definition, every other firm) out of the market.

The disadvantage is what happens if a firm tries to achieve cost leadership but fails. The attempt requires enormous outlay of resources, to gain the size and experience necessary. To try and fall short means being saddled with large, expensive facilities that are nevertheless being under-priced by the firm which won the cost leadership contest.

This problem is aggravated in growth markets, which require aggressive strategic actions. Slower-growth markets are problematic in that becoming the leader requires wresting market share from incumbent firms, which they will surely resist, and which is therefore going to be expensive and not very profitable.

7. *Examine the authors’ discussion of efficiency versus effectiveness. How does this section relate to the earlier reading by Galbraith (Chapter 8)?*

Galbraith drew a distinction between upstream and downstream firms. The former tended to focus on production efficiency, the latter on marketing effectiveness, on meeting customer needs. This dichotomy is almost identical to the one drawn by Abell and Hammond in this reading.

Galbraith pointed out that upstream firms tended to be poor diversifiers, because most of the lessons they learned were geared to one area—production. Downstream firms tended to be more successful diversifiers because they focused on customer needs, which tended to be diverse.

Here is the way Abell and Hammond describe the problem faced by firms seeking to use an efficiency strategy:

“A firm [using an efficiency strategy] must guard against going so far that it loses effectiveness, primarily through inability to respond to changes. For instance, experienced-based strategies frequently require a highly specialized work force, facilities and organization, making it difficult to respond to changes in consumer demand, to respond to competitors’ innovations, or to initiate them. In addition, large-scale plants are vulnerable to changes in process technology, and the heavy cost of operation below capacity.”

This is very close to the kind of criticism articulated by Galbraith.

WILSON, "INNOVATION IN BUREAUCRACY"

Summary of Reading

This reading addresses why the adoption of information-processing innovations is resisted in organizations, with a particular focus on resistance to innovation in government bureaucracies. It is argued that innovations that facilitate the performance of existing tasks in a way consistent with existing managerial arrangements are more likely to be adopted than those that involve the performance of new tasks, or those that involve a significant alteration in the way in which existing tasks are performed, or those that alter the distribution of decision-making power. For example, department stores quickly adopted computers for filing, writing, and accounting, but not for inventory control, because doing so for the latter would have reduced the decision-making power of the internal merchandise buyers. This yields the following insight: real innovations are those that alter core tasks, but most changes merely add to or alter peripheral tasks.

The reading goes on to address the distinction between information and knowledge, and this distinction allows us to see that the reading is fundamentally about knowledge management. The author goes on to argue that the adoption of innovations can lead simply to more information being generated without any reduction in uncertainty due to the innovation's altering the incentives operating on subordinates to conduct information-gathering and -transmitting processes in particular ways. Thus, for example, changes that make it easier to communicate about a decision with a superior typically lead to more requests to the superior to make the decision; alternatively, if changes in information processing require the creation of specialized units, such units will typically demand more and more information as a way of justifying their existence. Historical examples include the increased overall centralization in army decision-making, and the enhanced power of engineering units, consequent upon the adoption of the use of the railroad and telegraph.

Change can be implemented in a collegial and open fashion, or driven by a few individuals who possess considerable power. The correct choice will depend on the impact on subordinates' incentives for thinking about, proposing, and helping to refine such changes. In some cases, a specialized unit will be necessary to take on the new tasks, in others the retraining or replacement of subordinates will be necessary. For example, at the Federal Trade Commission, one third of staff attorneys and 60% of top staff members were replaced in order to re-focus the Commission on prosecuting cases in deceptive advertising and monopolistic structures rather than persisting in its focus on small scale price-fixing.

The reading concludes that the longer an agency exists, the more likely that its core tasks will be defined in ways that minimize costs to the operators performing them, and thus in ways that maximize the costs of changing them.

Discussion Questions

1. *What do you think is the key insight of this reading?*

Answers to this question will likely vary, but a significant emphasis of the author is on the value of core operating knowledge in making a success of the adoption of an information-processing innovation that changes core tasks. The author argues that key to accessing such knowledge will not be so much involving subordinates in the change process but more precisely understanding how the adoption will affect the incentives subordinates face to process and transmit information. Thus, an innovation that requires relearning work confronts employees with a type of switching cost – from familiar to unfamiliar, and perhaps worries about consequent evaluation, career progress, and peace of mind. Similarly, loss of decision-making power is another switching cost for which employees may feel inadequately compensated to accept the innovation. If involvement in the adoption process does not adequately address how employees are encouraged to process information in particular ways, the adoption is likely to be costly, and also to be resisted and fail. This insight is especially significant given the heightened significance of information technologies in recent years.

2. *Why do you think this reading focuses on innovation in terms of organizational information processes?*

One reason could be that the author's interest in governmental agencies compels this focus – innovation in such an organizational context must inevitably be in information processing as there is no tangible product and a great deal of what the government delivers is well-established and monopolistically provided. However, a more fundamental answer is that the author's focus reflects an information-processing view of organizations in general. This perspective examines organizations in terms of the information requirements they face, and how these change as a function of increasing diversity, uncertainty, and interdependence of workflows. A choice fundamental to organizational sustainability will therefore be the choice whether by innovating it is possible to reduce the amount of information processed or to increase the capacity to handle more information – or perhaps even try to do both (computer-aided design is an example of the latter).

BOYNTON, VICTOR, & PINE, "CHALLENGES TO ORGANIZATIONS AND INFORMATION TECHNOLOGY"

Summary of Reading

This maintains the focus of the immediately preceding reading on the adoption of new information technologies. The authors develop a 2x2 product-process change matrix of strategies based on the type of change pursued (in terms of product and process; i.e., procedures and technologies deployed), and the pace of such change (stable slow, evolutionary, and generally predictable, and dynamic i.e., rapid, revolutionary, and generally unpredictable). This yields four distinct I/T strategies, two of which are established competitive strategies (mass production and invention), and two of which are new (mass customization and continuous improvement).

Mass production (stable product and process change)

Characteristic of most firms for most of the last century. Stable and predictable product specifications and demand conditions permit standardization, which in turn encourage large size, vertical integration, and a focus on cost as the basis of competitive success. Product and process change or variety are resisted because of their disruptive effects on the efficiency of mass operations. Information systems are silo-based, and geared to efficiency but not flexibility. Historically, I/T innovations have been geared to the substitution of labour in the performance of routine tasks.

Invention (dynamic product and process change)

Shifting and unpredictable product specifications and work processes lead to flexibility and change being emphasized, with the focus on small volumes of new products while constantly innovating the processes required to develop and produce them. Decision-making is considerably decentralized, with distributed and flexible I/T systems focused on providing specialized and independent information-processing capabilities to support the creative process. These are “research” organizations that are relatively small in size, and may be separate R&D units within mass production organizations. Indeed, they have a synergistic relation with the latter, for in order to reconcile some need for change with the need for stability, they arose to deliver change of a highly specialized kind. Thus the mass producer coped with product and process change by limiting it as much as possible, and by isolating from production such of it as was strictly necessary.

Mass customization (dynamic product, stable process change)

This type is characterized by a set of core I/T process capabilities that are stable in the long term but are flexible, generic, and modular innovative one. While the organization initially experiences rapid and unpredictable process technology changes, these soon evolve into recognizable patterns, permitting stable but flexible process platforms that allow customer demand for product variety to be tackled modularly (see e.g. the Mintzberg & Lampel reading in Chapter 9). Thus cost and product variety are “trade-ons” rather than trade-offs. The organization design is one of a loosely-coupled dynamic network of interchangeable and inter-compatible individual unit production processes. It is nonetheless significantly centralized in the sense that a “hub” or central unit allocate work across the network. Key to success is the network’s capacity to routinely respond to a changing set of rules and command. Crucial to this will be short set-up times, which depends on the quality of task rationalization and working in parallel.

Continuous improvement (stable product, dynamic process change)

This strategy aims for constant advances in process quality, speed – combining process efficiency with innovation, and cost in markets where product demand remains relatively mature, stable, large, and homogenous. Similar to the preceding type, cost and process change are viewed as trade-ons, rather than trade-offs. Intensive team-based interaction between production, development marketing and information-systems process specialists distinguishes this type, and this facilitates the rapid and effective refocusing of functional units. More precisely, this type focuses on an on-going sequence of micro-transformations devised by these cross-functional teams and rapidly implemented by each

team member in his function-specific work. Thus while work is highly standardized it is so iteratively, with such standardization emanating from teams representative of those who will actually execute the tasks.

Synergy between these latter two new types may be achieved by the mass customizer borrowing a process innovation from the continuous improver, by the two types coexisting in the one organization, or by a mass producer evolving (*not* leapfrogging) to a mass customizer via continuous improvement. The reading labels this synergy *dynamic stability*.

Discussion Questions

1. *The notion of platform is crucial to understanding the strategy of mass customization. What do you understand the notion of platform to mean?*

A product architecture that spawns derivative products at relatively low cost (when compared to originating the derivative as a stand-alone product development) constitutes a product platform. Platforms often leverage that element of development and commercialization which is most costly to replicate. This could be a physical product architecture (e.g. car chassis), a process technology, or even a brand. A platform strategy will not just focus on derivatives from a given platform but will seek to link generations of products via some shared leveraged elements such that customers can migrate easily from one generation to the next. Thus customers can be offered cost-efficient variety both in the short term (in the form of derivatives of a platform) and long term (in the form of new platforms to which they can relatively easily migrate). A platform strategy and a strategy of mass customization are therefore equivalent. Note that as the underlying or complementary technologies change, the definition of the “leverageable” core of the platform might change; for example, CAD technologies and simulation capabilities have made changing (and imitating) architectural design relatively easy and therefore less valuable as a basis for a platform strategy.

2. *Do you think managers are likely to find the identification and discussion of these strategic types useful?*

The discussion provides a language that defines the different approaches to developing new forms of competing. The identification of distinct forms illuminates the scope for a managerial choice. It therefore helps managers to structure how they should think about competing in the 21st century. However, the reading goes beyond the identification of forms – whether old or new – in its attention to the possibilities of synergy between them. This allows the reader to grasp the possibility of “trade-ons” i.e., how the two newer forms (mass customization and continuous improvement) permit both variety and cost efficiency. To really see that managers face an altered choice framework compared to much of the 20th century depends on showing coherent types of strategy that unite what were previously thought to be mutually exclusive goals.

CHAPTER 15: MANAGING EXPERTS

MINTZBERG, "THE PROFESSIONAL ORGANIZATION"

Summary of Reading

The basic structure

The basic structure of this type may be grasped once it is understood that an organization can be bureaucratic without being centralized. This happens when work is complex yet stable. Professional skills are perfected by standardized operating programs.

The work of the professional operators

"The professional organization relies on coordination for the standardization of skills, which is achieved primarily through formal training." It hires specialists and gives them considerable autonomy. Professionals work independently of each other because they have learned what to expect from one another. The complexity of skills ensures that discretion remains. Training, reinforced by indoctrination, is a complicated affair in the professional organization. Typically, it starts in professional school, followed by on-the-job training, supplemented by indoctrination. The goal is the internalization of the profession's set procedures. While the machine organization sets its own standards, the standards of the professional organization originate in the self-governing associations to which professionals belong. Other forms of standardization don't work in professional organizations. The work is too complex to be standardized by analysts. Outputs of professionals cannot be easily measured. And direct supervision and mutual adjustment impede professional autonomy, and so get in the way of effectiveness.

The pigeonholing process

At the operating level, the professional organization is a set of standard programs—a repertoire of professional skills—applied to known situations, called contingencies. This process is sometimes called pigeonholing. The professional has two tasks: to diagnose the contingency and to execute the program. While the machine organization is a single-purpose structure, the professional organization applies more varied programs, but in a circumscribed way. Fully open-ended diagnosis, with no programming, requires the innovative organization.

The administrative structure

The operating core is the key part of the professional organization. Support staff is also well-developed. The technostructure and middle line are not highly elaborated in the professional organization; they can do little to coordinate professional work. The administrative structure is elaborated. The democratic nature of the professional organization requires that the professionals control much of the administrative work. There are many committees and task forces. But the support staffs are not organized democratically. In most professional organizations there are "parallel and separate administrative hierarchies, one democratic and bottom-up for the professionals, and a second machine-like and top-down for the support staff."

The roles of the administrators of professional work

Compared to managers of machine and entrepreneurial organizations, these managers seem to lack direct power. But they can exercise indirect power. First, they spend much time handling disturbances in the structure, usually brought about by the imperfections of pigeonholing. These must often be resolved by several administrators through negotiation. Second, administrators "serve in key roles at the boundary of the organization, between the professionals inside, and the influencers outside: governments, client associations, benefactors, and so on." They act as buffers, and as seekers of support, from the environment. The administrators gain power because they are at the locus of uncertainty. The ones who obtain resources for, or buffer, their units are the ones who gain power. But "the professional administrator maintains power only as long as the professionals perceive him or her to be serving their interests effectively."

Conditions of the professional organization

The professional organization is typically found in complex yet stable situations. The technology cannot be highly regulating or automated, or it could be rationalized and the organization made into a machine organization. If the technology were *highly* complex, it might require multidisciplinary teams, and the professional's autonomy and independence would be curtailed. This organization is often found in universities, schools, consulting firms, law and accounting offices, social work agencies, and hospitals. In industry, it might be found in craft businesses, like ceramic products.

Strategy formation in the professional organization

The standard strategy model is "almost totally at odds with what really happens" in professional organizations. But strategy can also be the creation of patterns in a stream of action over time. The question for professional organizations then becomes "which actions?"

"The key area of strategy-making in most organizations concerns the elaboration of the basic mission...In professional organizations...this is significantly controlled by individual professionals." Other important areas of strategy here include the inputs to the system, the means to perform the mission, the structure and forms of governance, and the various means to support the mission. Some of these things come under the direct control of professionals, some under the control of administrators, and yet others require the participation of a variety of people.

Decisions made by professional judgement

Determination of the basic mission is mostly left to the judgment of professionals as individuals. But there is a subtle constraint on their autonomy, namely, what the *profession* considers appropriate. Professionals may be free from administrators and from colleagues in other disciplines, but they are not free from colleagues in their own discipline.

Decisions made by administrative fiat

Certain types of decisions, less related to professional work per se, can be the exclusive prerogative of administrators. The best example is financial decisions. Most support

services fall into this category. (The support services central to the professional work tend to fall into collective decision-making.) Central administrators also may play a prominent role in controlling procedures, e.g., committee assignments. And in times of crisis, they are granted more power.

Decisions made by collective choice

Many decisions are handled in interactive processes that combine professionals and administrators. One of the most important of these decisions involves “the definition, creation, design, and discontinuation of the pigeonholes.....” Others concern the hiring and promotion of professionals, budgeting, and design of the interactive processes.

Models of collective choice

The most common model of collective choice is the *collegial* model, guided by common interest. Another model is the *political* model, where participants seek to serve their self-interest. Neither model dominates all the time; some combination is to be expected. A third model is the *garbage can* model; participants are guided by a lack of interest. It is characterized by solutions looking for problems, problems looking for solutions, the fluidity of participants, and random occurrences of opportunities to make choices. This model exists, but is not dominant. A fourth model is *analysis*. It is guided by rationality and calculation. It features prominently in the professional organization because professionals like to be rational.

Strategies in the professional organization

The process of strategy-making may be different, but professional organizations are inundated with strategies (i.e., patterns in actions). Standardization of skills encourages patterning. Collegiality promotes consistency of behaviour. Even politics works to resist changes in existing patterns. The garbage can model represents the unexplained variance in the system. Many people are involved in the strategy-making process, but there are forces that encourage strategic cohesion: the centralized forces of administrative fiat; the broad negotiations of collective action; and the forces of habit, tradition, and ideology. “Overall, the strategies of the professional organization tend to exhibit a remarkable degree of stability. Major re-orientations in strategy . . . are discouraged by the fragmentation of activity and the influence of the individual professionals and their outside associations.” But *narrower* changes happen constantly—new contingencies, new programs, new clients, new pigeonholes. “Thus, the professional organization is, paradoxically, extremely stable at the broadest level and in a state of perpetual change at the narrowest one.”

Issues

The professional organization is unique among the configurations in that it is very democratic and provides operators with extensive autonomy. Professionals tend to emerge as highly motivated individuals who can perfect their skills and still develop personal relationships with clients. But democracy and autonomy contain the seeds of the chief problems of the professional organization.

Problems of coordination

Standardization of skills is a loose coordinating mechanism at best. It works poorly at coordinating the work of professionals with support staffers. The need for coordination *among* professionals is also handled poorly, which often leads to conflict.

Problems of discretion

Complex professional sells require the exercise of considerable judgement. This is fine if the professionals are competent and conscientious. If they are not, it plays havoc. Client needs may be ignored. The needs of the organization might also be ignored. Professional organizations need loyalty from their members—to support their strategies, to staff their administrative committees, and to see them through conflict with the professional associations.

Problems of innovation

Major innovation depends on cooperation. Existing programs may be perfected by the single individual, but new ones usually cut across established specialties, and call for collective action. But the reluctance of professionals to coordinate produces a resistance to innovation. Professionals tend to be *deductive* and to engage in *convergent* thinking; they see specific situations in terms of the general concept. Innovation requires *induction* and *divergent* thinking—the inference of the new general solution from the particular experience.

Public responses to these problems

Outsiders try to control professionals either through direct supervision or by standardizing the work. As discussed earlier, these rarely work. “All these types of controls really do . . . is destroy the effectiveness of the work.” Change can only *seep in* through the professional associations, and the methods they use to control the quality of professionals.

Discussion Questions

1. How can an organization be bureaucratic yet decentralized?

This seemingly paradoxical condition stems from Mintzberg's definition of what makes an organization bureaucratic. He said in a previous reading that an organization that relies on any of the four methods of standardization was by definition *bureaucratic*. Since the professional organization relies on standardization of skills, it is bureaucratic. But as operating core professionals have extensive power to do their business as they see fit, so the professional organization is a decentralized structure.

2. What is the author's definition of professional work?

He says that it is work that is complex yet stable. Its complexity requires that it be carried out and controlled by people with special training. Its stability ensures that professional skills can be perfected by standardized operating programs.

3. *What is the difference between standards as used in machine organizations and professional organizations?*

The machine organization sets its own standards; these typically emanate from the technostructure. By contrast, the standards of the professional organization originate outside the organization, in the self-governing associations to which professionals belong.

4. *Assess the following statement: "Professional organizations cannot rely extensively on the formalization of professional work or on systems to plan or control it."*

Professional work is too complex to be standardized by analysts. Outputs of professionals cannot be easily measured. Direct supervision and mutual adjustment, or for that matter *any* form of outside control, impede professional autonomy. So professional organizations cannot rely on formalization, systems, or direct supervision for control.

5. *How can it be that "both direct supervision and mutual adjustment impede the professionals close relationship with his clients"?*

Traditionally, professionals are given complete control over how to service a client. No one tells a physician how to treat a patient, no one tells a university professor how to teach a course, and no one tells a CPA how to conduct an audit. If a professional were to submit to direct supervision, her or his control over the servicing of the client would no longer be complete. Similarly, if servicing decisions were made by committee, individual autonomy would obviously be compromised.

6. *What is the significance of pigeonholing in professional organizations?*

Pigeonholing is *the* key process in professional organizations. Professionals have standardized procedures for any contingency they encounter. Their most important tasks are to figure out which contingency they are facing (called *diagnosis*) and then to apply the correct standardized procedure to that problem. In other words, they must find the right "holes" into which to place the clients with whom they are dealing. For example, if a person has chest pains, the doctor must diagnose whether it is angina or indigestion, and then place the patient on the appropriate treatment.

7. *Why is the operating core the key part of the professional organization?*

In a professional organization, all the important activity is done by the professionals. They learn the standardized programs. They learn the diagnostic techniques. They exercise total control over the provision of services. They are the ones who belong to the professional organizations who control what is considered appropriate professional conduct. And the professionals are the people who make up the operating core of professional organizations. This is what makes the operating core the key part of this configuration.

8. *If standardization of skills is the main coordinating mechanism in the professional organization, why is the use of liaison devices so high?*

Professionals may not need to mutually adjust in order to provide services; they have autonomy as far as that goes. But they are the ones responsible for much of the governance of the professional organization, at least those parts clearly not part of

administrative fiat. Because of these collective choice decision responsibilities, professionals find themselves involved in many standing committees and task forces.

9. *Are the administrators of professional bureaucrats powerful or powerless?*

In some respects they are powerless. They can administer only at the pleasure of the professionals in the operating core. And they must make sure not to encroach on the autonomy and discretion of those professionals. But as the author points out, they have some sources of indirect power. They handle disturbances and they serve in crucial boundary roles. Good outcomes of conflict handling enhance power. The acquisition of resources from outside groups can also increase the prestige and power of a professional organization administrator.

10. *What happens iff members of a professional organization use a sophisticated technical system?*

Their autonomy is reduced. A sophisticated technical system could work against the professionals in one of two ways. If the system is very rational, it might be amenable to formalization. This would ultimately convert the organization to a machine form. If the technical system is extremely complex, it may not be "standardizable" enough to be taught as a set of professional skills. The organization might have to rely on teams of professionals mutually adjusting. The professional organization would ultimately be transformed into an innovative organization.

11. *Mintzberg says that the standard strategy model is "almost totally at odds with what really happens" in professional organizations. Why?*

The standard model says that strategies are formulated before they are implemented, that planning is the central process used in formulation, and that structures must be designed to implement these strategies. In professional organizations, most key organizational services are provided by professionals acting alone, not as the result of formulated strategies. Skills obtained under the auspices of independent professional associations, and not planning, are the basis of strategy. Structures in professional organizations are very loose, really only collections of independent actors; they are not designed by centrally-acting strategists.

12. *The author says that "the key area of strategy-making in most organizations concerns the elaboration of the basic mission" What is your opinion of this? What are the implications for professional organizations? Is this reminiscent of anything from previous readings?*

Most students will agree with this basic assertion. If strategy is not for the specification of the firm's purpose, then what is it *for*? The implications for professional organizations are straightforward. Since the basic mission of most professional organizations is the provision of the services the professionals have been trained to provide, then the key area of strategy in most professional organizations will be controlled by the individual professionals. Of course, they will be constrained by norms of what the *profession* considers appropriate. This is connected to Mintzberg's discussion in his Chapter 1 reading on the five Ps of strategy. Specifically, this is the kind of strategy he meant when he discussed *disconnected strategy*.

13. *What is your reaction to the discussions of administrative fiat and collective choice?*

Many students will have come into the course with the idea that many strategies are developed using what Mintzberg here calls administrative fiat. Most students will probably be comfortable with this notion as a method for strategy-making with respect to some aspects of professional organizations, but will be unfamiliar with the “collective choice” idea. Unless one has been in a professional organization, the idea of collective choice is foreign. Most will find the distinctions among collegial, political, garbage can, and analytical models to be quite interesting as a result. It is important for students to be exposed to these ideas, since many students in business schools today will find themselves in a professional context. Many are studying to be public accountants. Some may go on to law school, or even medical school. Many are likely to find themselves managing in hospitals, or perhaps government agencies that have many professionals.

14. *The author says that even though the process of strategy-making may be different, “professional organizations are inundated with strategies.” What is your reaction to this statement?*

Students will have to be reminded that strategies are not only *planned*, they can also be *patterns*. Planned strategies are rare in professional organizations, except for those areas controlled by administrative fiat. But patterned strategies *are* abundant. In a university, for example, each professor has a different strategy. Each department, exercising collective choice, has a different strategy. The administration has its own strategy for things like building construction and parking. Joint committees that oversee the university library have their own strategy.

15. *How serious are the problems of discretion? In particular, how serious is the problem of loyalty?*

The problems are serious for clients and host organizations. If incompetent or lazy professionals abuse their discretion, clients will at best receive poor service and at worst may be hammed. Professional organizations whose members are loyal only to themselves or the profession will damage its ability to deliver on its overall strategy, will hinder its efforts to administer itself, and will impair its ability to handle conflicts with professional associations.

16. *Why does “the reluctance of the professionals to work cooperatively with each other [translate] into problems of innovation”?*

Most sophisticated innovation requires teams of people, usually from different disciplines, mutually adjusting. This runs against the grain of most professionals. They like to work independently, at least on the basic provision of services. (They may work together on governance.) Because they are reluctant to adopt the mutual adjustment so typical of innovation, the professionals in professional organizations inhibit it.

17. *What is the difference between convergent and divergent thinking? Why does it matter? How is this distinction related to material from previous chapters?*

Convergent thinking tries to fit particular situations into the general framework that has been created by a profession. Professionals try to *converge* on the solution to a problem.

Divergent thinking takes a particular situation and tries to see how many ways it can be developed. It is an important distinction because convergent thinking (which is related to analysis) inhibits innovation. Divergent thinking, by its very nature, induces innovation. This has implications for strategy-making beyond the innovative kind. Earlier readings, particularly Mintzberg's reading on "Crafting Strategy," discussed how strategy-making is less an analytic, convergent process, and more a synthetic, divergent process.

18. *Why doesn't standardization of work processes or outputs work in the professional organization?*

Standardization of work processes is possible if the skills are fairly simple. Then, it can be standardized by analysts in the technostructure. If they are complex, as they typically are in professional organizations, it is difficult to measure the outcomes. How can one tell if a person being treated for mental illness is cured?

19. *What is the author's recommendation for changing and controlling the professional organization, and what's your evaluation of it?*

Outsiders try to control professionals, either through direct supervision or by standardizing the work. As discussed earlier, these rarely work. "All these types of controls really do . . . is destroy the effectiveness of the work," says Mintzberg. He argues that change can only *seep in* through the professional associations, and the methods they use to control the quality of professionals. This seems a weak way of effecting change. And it is useless in a crisis. But he is probably correct. Individuals who have been victimized by professionals can sue them. But control of professionals in a general sense, and for the future probably *does* depend entirely on how the professions control *themselves*, and the people who join them.

QUINN, ANDERSON, & FINKELSTEIN "MANAGING INTELLECT"

Summary of Reading

This reading develops the theme of the previous on the significance to sustainability of knowledge management by focusing it on the concept of *organizational intellect*, which is constituted by (in increasing order of importance) cognitive knowledge (know what), advanced skills (know how), system understanding and trained intuition (know why), and self-motivated creativity (care why). The authors contend that many firms mistakenly invest far too much attention in cultivating lower-level intellect, and little or none in systems, motivational, or creative skills. The best-managed companies avoid this mistake by organizing around intellect and exploiting critical characteristics of intellect, which is discussed in the remainder of this summary.

Intellect is capable of growing *exponentially*, as illustrated by learning and experience curves. This effect accelerates at higher levels of knowledge to allow the organization to tackle more complex problems and to inter-relate with diverse knowledge sources. Exponentiality implies that once a firm takes a lead, it becomes harder and harder for rivals to match it or overtake it. The "care why" aspect of intellect will be crucial in keeping the firm moving on this exponential curve, motivating in particular intensive

interaction to *share* and leverage knowledge. Such sharing exploits the inherent *expandability* of knowledge.

There are, however, differences to managing creative versus professional intellect. A professional's typical activity is aimed at perfecting an established body of knowledge and its application to relatively similar though complex problems. Professional – the best professionals - will have experienced and internalized *intense training, mentoring and peer pressure*, and will be hired on this basis (thus, for example, from the top graduate schools). The organization will continue to reinforce this through constantly increasing challenges, strong inducements to share knowledge, and accommodate an unwillingness to subordinate to others through devising such organizational arrangements as partnership.

However, historically many enterprises found it difficult to exploit scale economies in professional activities, and experienced a multiplication of costs as more professionals were hired, not least due to an expanding administrative bureaucracy to coordinate their work. The authors identify four organizational forms for leveraging professional intellect: infinitely flat, inverted, starburst, and spider's web (see accompanying figures in the reading). While each differs in its purposes and management, they have in common a relatively flat hierarchy and an emphasis on fast and responsive action focused on customization or personalization.

The infinitely flat organization is so named because of the capacity of its centre to control a limitless number of nodes (or branches) e.g. Merrill Lynch brokerages. Each node operates independently, and the centre is more a communication coordinator, source of performance improvement, and reference for unusual issues than a command centre. Most operating rules are embedded in software and can be relatively easily changed. Challenges of this form include the limited possibilities for career advancement, and the need compensation systems based on professional capability, individual performance, and customer satisfaction.

In the inverted organization corporate intellect and customization are largely dispersed to the nodes (who may be individuals or teams of professionals) e.g. consulting-engineering firms or health-care “infrastructure” companies such as Nova Care. Knowledge may diffuse informally from node to node, or formally from node to centre; the centre intervenes only in extreme cases. Challenges include mutual remoteness between node and centre seriously impeding coordination.

The starburst form leverages highly specialized intellect at both node and centre, with the organization typically acting as a seed-bed for new spin-off ventures. The form is suited to environments requiring entrepreneurship, rather than merely fast response. Examples include movie studios or venture capitalists. The difference with a holding company is that the centre retains a core of intellectual competency, as well as managing the culture, setting broad priorities, and garnering resources. Challenges include a tendency by the centre to lose of faith in the nodes.

In the spider's web form, the centre is hard to identify, if it can be said to exist at all. In the inverted form, intellect is highly dispersed, though value creation may often require collaboration between nodes. Examples include the internet and consortia. Effective for problem finding and analysis, this form is challenged by decision-making (given the absence of an authoritative centre).

The table in the reading usefully summarizes each of these four organizational forms in terms of the various elements of intellect discussed earlier in the reading.

Discussion Questions

1. *What do you think might be a key value-creation factor explaining the increasing significance of the organizational forms identified in this reading?*

An initial answer might be "the exploitation of intellect." But this begs the question: how is such exploitation to create value? A more precise answer is touched upon in the reading: customization. Thus, in the infinitely flat form, the nodes of customer contact are a crucial locus of customization; however, because intellect flows primarily one way, from the centre to the nodes, the centre is indirectly involved too. In the inverted form, the major locus of both corporate intellect and customization is at the nodes contacting customers, not at the centre. In the starburst form, nodes are separate permanent business units focused on continuing relationships with given marketplaces, and are the locus of customized base on important, specialized market or production knowledge. To further refine customization, the nodes may in time spin out further enterprises from their core, or any collaborate temporarily in delivering a specific service or solution in project form to a particular customer. Finally, in the spider's web, form the locus of intellect is highly dispersed, residing largely at the contact nodes (as in the inverted organization). However, the point of customization is a project or problem that requires the nodes to interact intimately, or to seek others who happen to have the knowledge or special capabilities that a particular problem requires.

Note the extent that the intellectual locus remains at the centre, as degree of standardization persists (thus, customized standardization as per the Mintzberg & Lampel reading in Chapter 9). Moreover, a degree of standardization can also enable through shared information technologies that support designing the form around intellectual flows, and performance measurements and incentive systems that reward managers for developing intellectual assets and customer value... not just for producing current profits and using physical assets more efficiently.

2. *Previous readings that attempted to contribute to our understanding through identifying different types of strategy or organization have tended to emphasize that real organizations will typically seek to blend two or more types. What do you think would be key to blending the types described here?*

Software technology will be critical to mixing and matching these forms to maximize value creation and capture. In particular, such software will need to be able to manipulate the smallest replicable units of tasks, customized data, and transactions. Information and measurement systems developed around such micro-units enables both

flexibility and cost efficiency. For example, detailed work schedules, accounting transactions, or digitized sequences can be endlessly combined or manipulated for new effects and to satisfy individual customer and operating needs. Focusing on such micro units permits the highest possible degrees of segmentation, strategic fine-tuning, value-added, and customer satisfaction at the lowest cost.

Thus, the health-care “infrastructure” organization, *NovaCare* (see case collection for further details) keeps track of the activities of its 5,000 therapists in 15-minute units of detail. These units provide the basis for scheduling, compensation, billing, and follow-up on all therapies. They enable *NovaCare* to ensure that all its customers (patients, nursing homes, hospitals, hospital directors, doctors, nursing directors, payers, and regulating bodies) are properly served, charged, or compensated. The system serves a variety of centralized functional (accounting), geographical hierarchical (hospital), inverted (therapy), and spider's web (professional knowledge exchange) structures. Although it collects information in immense detail, the system has unburdened caregivers (who hated detailed paperwork), and freed up regional coordinators (who earlier spent enormous amounts of time in collecting, analyzing, and relaying activity reports) for more personalized and higher value-added activities. The same detailed information about individual operations and transactions also helped to coordinate the purchasing, logistics, financial, and regulatory compliance groups that support these operations.

MAISTER, "BALANCING THE PROFESSIONAL SERVICE FIRM"

Summary of Reading

Professional service firms (PSF) have emerged in many service industries, such as law consulting, investment banking, accountancy, architecture, engineering, and universities. Yet, the topic of managing them has been neglected. PSFs sell the services of their individuals or teams of individuals, not the whole firm. There tends to be a lot of interaction with clients and a lot of customization. Both these things require individuals with high skill levels. PSFs compete in two markets: the “input” of skilled professionals and the “output” of their services. Balancing these two flows constitutes the special challenge of the PSF. The framework explored in this article has four interrelated elements: two markets—one for the professional work force and one for the firm's services—and two structures—the firm's economic structure and the firm's organizational structure. Successful PSF management requires a balance among these four elements.

The organizational structure of the PSF

The archetypal PSF has three organizational levels: junior, manager and senior. In a consulting firm, these might be called junior consultant, manager and vice-president, respectively. In a CPA firm, the corresponding titles might be staff accountant, manager, and partner. At a university, the levels would be assistant professor, associate professor and professor. There is nothing magical about this common number of levels, but it is reminiscent of the medieval guild system of apprentice, journeyman and master...a system which in some ways still exists in modern PSFs.

Project team structure

What determines the relative mix of the three levels? The nature of the service provided. Customization leads to a project structure with three major activities: client relations, project management, and performance of detailed professional tasks. Typically, senior people handle client relations, managers handle project management, and juniors handle the project tasks. A vernacular term is that the three levels are "the finders, the mincers and the grinders." Things need not be this rigid; juniors might be given management tasks and managers might be encouraged to hone their client relations skills.

Capacity planning

The mix of these three activities shapes the firm's capacity. Professional staff is like a "machine", and a balance must be struck between activities and the machines needed to perform them.

The economics of the PSF

Most PSFs are partnerships, some are corporations. Regardless, they tend to have few fixed assets, require capital only to fund accounts receivable and other working capital. The vast majority of revenues are disbursed as salaries, bonuses and partnership profits. It is common to see an even three-way split among salaries, staff support and partnership profits. Sometimes the latter can be as much as half.

Revenues are based on the billing rate—"the hourly charge to clients for the services of individuals at different levels of the hierarchy. The ratio between the lowest and highest rates in some firms can exceed 3 or 4 to 1." Project team structures allow firms to leverage the sells of the seniors with the efforts of the juniors. "The firm can obtain higher rates for the juniors' efforts because they are combined with the expertise and guidance of the seniors."

The billing multiple

The billing multiple is the billing rate per hour divided by the total compensation per hour. The average multiple for most firms is between 2.5 and 4. The appropriate billing multiple will be influenced by the value added by the firm's services and the demand and supply conditions for those services. If a firm can deliver services with a mix weighted toward juniors, it will get a higher multiple. The billing multiple is intimately related to the break-even economics of the firm. If compensation is \$Y and overhead is also \$Y, then break-even will be a bill of 2\$Y. To get to breakeven at a 50% utilization rate, the firm would charge 4\$Y, which is common in many PSFs.

The PSF and the market for professional labour

The common three levels in PSFs lay out a clear career path. The typical person starts at the bottom and the expectation (implicit or explicit) is that she or he will be promoted through the levels at an appropriate pace. Failure to adhere to that pace results in people leaving for greener pastures or being "counseled out." It is this characteristic, perhaps more than any other, that distinguishes the PSF from other types of organizations.

Promotion policy

While many things attract people to PSFs, career opportunities play a large role. There are two important dimensions: "the normal amount of time spent at each level before being considered for promotion and the 'odds of making it' (the proportion promoted)." These variables are important screening mechanisms. Good recruiting doesn't eliminate the need to move people out. The risk of not making it also motivates people to work hard, which is particularly important in light of the great working freedom most professionals have.

Accommodating rapid growth

There are four strategies that can be used to allow faster growth:

1. Improve the hiring process to get a higher proportion of promotable juniors.
2. Speed up the apprenticeship process with training and development.
3. Use "lateral hires", bringing in experienced people to non-junior levels. This is usually avoided because of the adverse effect on the morale of juniors.
4. Modifying the team structure (discussed further below).

Turnover

Some PSFs have high turnover, i.e., low odds of "making it." This is called a "churning" strategy. Benefits are that seniors can earn the surplus value of juniors' efforts without having to repay them with promotion. The screening built into this approach leaves only the best people in the firm. Firms that follow this strategy tend to be very prestigious. Junior people are willing to work there anyway because of the added development they get from doing that. They can often leave for positions in lesser firms that they would not have secured without the exposure to the churning firm. They also tend to refer later clients to their original firm.

The market for the firm's services

"... One of the most basic linkages in the dynamics of the PSF [is the direct link between the market for professional labour and the market for the firm's services." The key linking variable is the quality of available and attractable professionals. Top professionals will be attracted to firms that provide exciting and challenging projects, or good opportunities for professional development and personal fulfillment. Symmetrically, firms that do these things need to attract top professionals.

Project types

Professional service projects may be characterized into three types:

Brains: the client's problem is complex and at the cutting edge of professional knowledge. PSFs will sell the professional craft of its people. Key elements are: creativity, innovation, and pioneering of new approaches, concepts and techniques.

Grey hair: highly customized output that is not as innovative or creative as the brains project. Clients seek out firms with experience in their type of problem. The PSF sells its knowledge, experience and judgement.

Procedure: involves a well-recognized and familiar type of problem. There is some customization, but mostly the required steps are programmatic. Companies turn to the firm because of efficiency. The PSF is selling its procedures, efficiency and availability.

Project team structure

Project structures vary with the type of project:

Brains projects: extreme job shop, nothing in a routine, every project "one-off." Opportunities for leveraging juniors are scant, partly because of the difficulty of figuring out in advance how to deploy them. Ratio of juniors to seniors is low, which affects the organization's shape.

Grey Hair projects: problems are more familiar, so there is some predictability to how many juniors will be needed. A bit more like a disconnected assembly line than a pure job shop.

Procedure projects: usually have the highest proportion of juniors. Steps are well established and can therefore be delegated to juniors. Appropriate responses can be programmed. Looks much more like an assembly line.

The choices made by the PSF in mixing its project types are some of the more important in balancing the firm. They affect project team structures and thereby influence the economic and organizational structures of the firm.

Conclusions: balancing the professional service firm

Figure 3 in the reading summarizes the links among the four major elements involved in balancing the PSF. Firms must figure out how to distinguish between "levers" (variables under its control) and "rocks" (variables not under its control). Perhaps the most significant management variable is the mix of projects undertaken and the implications this has for the project team structure. It affects the firm's economics and structure and markets, yet it is rarely monitored by PSF managers. Project team structures commonly change over time. More juniors will lower costs, so pressure from competition will create pressure to add juniors. If there is a life cycle to professional services, a particular type of project we move from brains to gray hair to procedure, increasing the proportion of juniors along the way. It will be more profitable for firms to do new projects that are similar to recently-completed ones. The savings caused by learning effects can be, for a time, kept by the firm. Over time, clients will want to share in the savings. Thus, firms will do well to lead the market. Repetition of projects will create a personnel problem, since professionals seeking development and challenge will shy away from repeating projects. One solution is to capture the learning in the efforts of juniors by increasing their proportion.

The proportion of juniors *in a particular practice area* tend to increase over time. "If this is allowed to proceed without corresponding adjustments in the range of practice areas, the project team structure of the Cams will be altered, causing significant impacts on the economics and organization of the firm. The dangers of failing to monitor the project team structure are thus clearly revealed...Successful PSF management is a question of balance."

Discussion Questions

1. *What are the two markets in which PSFs compete? What is so important about them?*

They compete as buyers in the market for skilled professionals and as suppliers in the market for professional services. The author points out that what PSFs usually supply is the skills of their professionals. They are the intermediary between professionals and those requiring professional services. PSFs will succeed at providing services only if they succeed at attracting qualified professionals.

2. *What is your reaction to the typical organizational structure of PSFs?*

Most students, except perhaps for accounting students, will be unfamiliar with PSFs. It should be interesting to hear their reactions to what appears to be an ancient form of organizing, dating back to the middle ages and the guild system. Professors, who inhabit one of the more rigid forms of PSF, will be able to enlighten their students about life in the PSF.

3. *How are project teams typically structured?*

The work on a project is usually a mix of client relations, supervision/coordination, and technical work. Typically, senior people manage client relations, managers supervise and coordinate, and juniors do most of the technical work. In well-managed PSFs, managers get some exposure to client relations and juniors get some management work to do. This helps people in each group develop useful skills for promotion and firm development.

4. *What is your reaction to "the economics of the PSF"?*

It should be interesting to see whether or not students are impressed by the typical disbursement of firm revenues in a PSF. Unless there are lots of sophisticated machines, perhaps in a medical practice, PSFs tend to have relatively few assets. So, revenues go mostly toward funding expenses, most of which are salaries. With prudent management of the proportion of juniors and managers, seniors can receive handsome rewards, up to half of revenues in the author's estimation.

5. *What is the significance of the billing multiple?*

The billing multiple is the ratio of billing rate to compensation rate. The author points out that most firms aim at a billing multiple of 4, meaning that they charge the client four times as much as what it costs the firm to provide the service. The higher the proportion of juniors, the higher the multiple, making project team structure an important aspect of firm profitability.

6. *What is the gist of the relationship between the PSF and the market for professional labour?*

PSFs try to attract the best labour possible, realizing that their judgment will occasionally be wrong. Promotion policy will help make the resulting adjustments, as less-qualified people either leave or are counseled out. This policy also helps motivate juniors, who even as juniors have very flexible work schedules. Firms with very restrictive promotion policies tend to be very prestigious, attracting only the best and keeping only the very best. Juniors see a temporary appointment in such firms as worth the effort, thereby perpetuating the system.

7. *What is the point of the section on “accommodating rapid growth”?*

Because of the finite size of the professional labour market, PSFs have only four strategies available to them if they wish to grow. They can try to hire better people who are likelier to get promoted; they can speed up the juniors' development process; they can hire senior people directly into the firm, and they can manipulate the mix of people assigned to project teams.

8. *What is the nature of the market for a PSF's services?*

Clients tend to want high levels of expertise, but not all their problems are interesting. Top professionals tend to want to work on projects that require high levels of expertise and are interesting. The author describes the three major categories of projects needed to serve clients' needs. *Brains* projects are the most interesting and challenging, and will tend to attract the best professionals. *Procedure* projects are completely programmed and routine, and only juniors will want to work on them. *Grey hairs* projects are in between. To attract the proper mix of talent, firms will want to achieve a proper balance among these three types of projects.

9. *How is project team structure affected by type of project?*

Brains projects are the most fluid, resembling the innovative organizations discussed in the next chapter. They tend to have a higher proportion of senior people. Procedures projects have a much higher proportion of junior people, and their project teams look more like machine organizations. Grey hair projects are in-between, resembling, according to the author, a “disconnected assembly line.”

10. *What does the author think is the most crucial management variable in the PSF?*

The mix of projects undertaken is. Since team configuration depends on type of project, the mix of teams will be determined by the mix of project types. The mix of teams will collectively determine the overall balance of the firm. If too many projects are selected that need a high proportion of juniors, profits may be high but morale will sink in the junior ranks as they realize that the assumed career path will not materialize in their case. If the mix is slanted toward a higher proportion of seniors, profit will be lower as the big guns are unable to leverage their efforts with those of less-expensive junior people. The author points out that the proportion of juniors will increase over time *in a particular practice area*. To avoid having too many juniors overall, the firm must keep developing new practice areas. This also helps in another way. Top professionals loathe to do repetitions of particular types of projects, even though doing so is profitable. By constantly developing new areas, PSFs keep their top people challenged and can help avoid a situation where there is too great a proportion of juniors.

MINTZBERG, “COVERT LEADERSHIP”

Summary of Reading

This reading is also on professional work (a symphony orchestra) to spur reflection on how professionals are managed, and more generally about the nature of managerial work. It tackles the “myth” of the manager as the leader in complete control, and substitutes for this the notion of *covert leadership*.

Several key features of professional work, and their implications for the manager of that work, are identified: many standard operating routines (though significantly internalized by the workers), works standardized in terms of their highly structured training before they join the organization, and highly standardized tools fitted to very specific tasks and skills. Thus, a great deal of the structure of work is provided by the profession itself, not the manager, and the workers require little individual direct supervision from the manager in order to do their work.

The manager of professionals succeeds not by seeking to comprehensively control, coordinate, and direct but by intervening unobtrusively in getting the work done, more hands-on first-line supervisor than hands-off executive. This covert, rather than overt, leadership properly recognizes the high levels of expertise of the professional operators. This acceptance of the operators’ expertise needs to be matched by an acceptance by the operators of the manager’s personal expertise. The professional manager cannot really lead at the individual level (given the individual professional’s expertise). Much of the cultural content of work is imparted by the profession. However, although the professional manager does not create the culture of work, he can enhance it injecting his or her style and energy into the system. An additional important aspect of the professional manager’s work is connecting to important outsiders.

The author concludes that a good deal of today’s managing is about nuances and constraints, not obedience and harmony.

Discussion Questions

1. *Revisit the question assigned for the Mintzberg reading in Chapter 2 on whether management is a profession. What additional insights, if any, does this reading offer?*

Students could be asked to address whether in an increasingly knowledge-based, perhaps quasi-professional economy, knowledge management is what management is mostly about. In such a context, the manager has to face expert subordinates to whose work the manager can impart little in the way of direct control, but must rather focus on managing the constraints that condition the work.

2. *The ideas of management – of professionals and managers in general – come from direct observation of a manager at work. Why do you think that such observation is significant?*

The significance is due to the contrast between what managers (and others) say about their work and what they actually do. This was a very early theme in Mintzberg’s work, and is reflected in his fact/fiction dichotomies presented in his Chapter 2 reading.

Similarly, in the current reading we have the myth of the leader in complete control; the many preconceptions that management is defined by controlling, coordinating, and directing.

In the current reading, Mintzberg notes that the analogy of conductor has often been used to denote the job of the manager. For example, Peter Drucker used it to develop a “commander” model of management that is reflected in a great many textbooks. In this description, the manager is fully in control, and coordinating the efforts of organizational members. Not only this, but the manager is also the creative force in the strategy-making: composer as well as conductor. Leonard Sayles, on the other hand, though also using the conductor analogy, emphasizes the disturbances and demands that the manager must handle. The manager has, as it were, descended from the podium and rolled up his or her sleeves, and is not nearly so much in control. Thus, there is well-established professional analogy for managerial work. But that analogy was not grounded on direct observation of what a conductor actually does in the course of a day’s work. Mintzberg’s direct observation reveals the need to take Sayles’s “softening” of this analogy much further.

Moreover, the orchestra conductor, who is the focus of the reading, declares “I don’t see myself as a manager.” This declaration makes sense if management is defined in the “mythical” terms, but the direct observation that informs this reading allows a definition of managerial work that is fully compatible with the work of many managers.

CHAPTER 16: MANAGING INNOVATION

MINTZBERG, "THE INNOVATIVE ORGANIZATION"

Summary of Reading

The basic structure

None of the organizational forms discussed thus far is capable of sophisticated innovation. The entrepreneurial organization can innovate only in simple ways. The machine and professional organizations are performance types, designed to perfect standardized programs. The diversified organization may be a bit more flexible, but its focus on standardized outputs discourages innovation. We need what Toffler called adhocracies. This configuration is highly organic structure (little formalization), and the work is comprised of specialized jobs based on expert training. There is functional grouping for "housekeeping" purposes. In practice people belong to small project teams for work. There is considerable decentralization to these teams, and mutual adjustment is the key coordinating mechanism.

Innovation means breaking away from established patterns, so the innovative organization cannot rely on any form of standardization. The innovative organization must avoid the trappings of bureaucracy. Above all, it must remain flexible. The entrepreneurial configuration can innovate in simple ways, understandable by one person. Sophisticated innovation requires flexibility that can draw together different forms of expertise. Thus, the innovative organization empowers experts, but the experts coordinate in ways that allow the combining of their skills and expertise (very different from the professional organization). Standardization cannot be used, because it drives out innovation. Direct supervision can't be used because the work is complex. So coordination must happen using mutual adjustment supported by numerous liaison devices. The result is that managers abound in adhocracies, especially project managers. Adhocracies tend to be decentralized, with power over decisions flowing to those with the information to make them.

Adhocracies take two basic forms: the operating adhocracy and the administrative adhocracy. *The operating adhocracy* innovates and solves problems directly on behalf of its clients. "For every operating adhocracy, there is a corresponding professional bureaucracy, one that does similar work but with a narrower orientation." The operating adhocracy creates a novel solution to a problem; the professional organization tries to pigeonhole the problem. In the operating adhocracy, administrative and operating work tends to blend into a single effort. Examples of this kind of firm are design firms, avant-garde theatre companies, and some software development firms.

The administrative adhocracy undertakes projects to serve itself. The administrative adhocracy makes a clear distinction between its administrative component and its operating core. That core is truncated so that the administrative component that remains can be structured as an adhocracy. The truncation can occur in three ways:

1. If operations are machine-like, they can be established as an independent organization (Example: pharmaceutical firm that uses R-DNA technology splits off its manufacturing arm).
2. The operating core may be eliminated by outsourcing the operating work (Example: NASA during the Apollo project).
3. The operating core may be automated (Example: oil refining).

The administrative component of the adhocracies

In both types of adhocracy, the relationship between the operating core and the administration is unlike that in any other configuration. In the administrative adhocracy, the two are truncated; in the operating adhocracy, the two are blended. Either way, the need for traditional direct supervision is diminished, and managers derive their influence more from expertise and interpersonal skill than from formal position. Support staff play a key role in adhocracy, because that is where many experts reside, especially in the administrative adhocracy. The staff is not as sharply differentiated as it is in most other configurations. Technostructure plays virtually no role in adhocracies; most analysis comes from experts in the support staff.

The roles of the strategic apex

“The top managers of the strategic apex of this configuration do not spend much time formulating explicit strategies....” They spend much time on handling disturbances, which are frequent in these structures. They also monitor the projects, which are difficult to monitor using MIS. The most important role is liaison with the external environment. Operating adhocracies tend to live from one project to the next, so top management must work to keep the flow of projects up. “It is a distinguishing characteristic of many an operating adhocracy that the selling function literally takes place at the strategic apex.” Top managers also spend much time reassigning personnel from cancelled projects to new projects.

Conditions of the innovative organization

"This configuration is found in environments that are both dynamic and complex." Environmental dynamism calls for organic structure; complexity calls for decentralization. This is the only configuration that provides both. Firms with this structure usually choose this kind of environment (just as professional organizations tend to seek stable environments).

Adhocracies tend to be young. Operating adhocracies are particularly prone to short lives, since they face risky markets. Other operating adhocracies “die” because they succeed—the organization grows and becomes either a professional organization or a machine organization. Administrative adhocracies tend to live longer because their industries typically require sophisticated innovation for extended periods. One variant of operating adhocracy that has emerged is the *temporary adhocracy*—it draws together specialists, then disbands them after their task is completed.

Sophisticated technology drives the organization toward administrative adhocracy, because it must find a way to involve the experts in the support staff. Automation also

drives them toward administrative adhocracy, because the technostructure loses its influence and the structure becomes more organic and decentralized. Fashion also drives organizations toward adhocracy. The innovative organization is very fashionable these days.

Strategy formation in the innovative organization

“The structure of the innovative organization may seem unconventional, but its strategy-making is even more so, upsetting virtually everything we have been taught to believe about that process.” This type cannot rely on deliberate strategy; its actions must be decided upon individually, according to the needs of the moment. It proceeds incrementally. “The process is best thought of as strategy formation, because strategy is not formulated consciously in one place so much as formed implicitly by the specific actions taken in many places.” That is why these organizations cannot rely upon action planning. “Any process that separates thinking from action . . . would impede the flexibility of the organization to respond creatively to its dynamic environment.”

In the operating adhocracy, “Strategy never really stabilizes totally but is responsive to new projects, which themselves involve the activities of a whole host of people.... The operating adhocracy's strategy thus evolves continuously as all kinds of decisions [responding to individual proposals] are made, each leaving its imprint on the strategy by creating a precedent or reinforcing an existing one.”

Strategy-making is similar in the administrative adhocracy, but is neater because the administrative adhocracy tends to focus on fewer projects. Administrative adhocracies give more attention to action planning, but of a loose kind, specifying ends but not means.

Strategies nonetheless

“With their activities so disjointed, one might wonder whether adhocracies (of either type) can form strategies (that is, patterns) at all. In fact, they do, at least at certain times.” They tend to cycle between periods of convergence on patterns, and divergence, when there are no patterns. In machine organizations, the periods of convergence are long, the periods of divergence (“strategic revolutions”) are short. In innovative organizations, the cycles tend to be regular. “The IO . . . seems not only able to function at times without strategic focus, but positively to thrive on it.”

The varied strategies of adhocracy

Where do the strategies of adhocracy come from? Some may be imposed deliberately, but most emerge. In some cases, a single ad hoc decision sets a precedent that evokes a pattern. Sometimes a strategy will be pursued in a pocket of an organization, which later becomes more broadly organizational when the organization seizes upon it. What does management do? “It manages patterns, seeking partial control over strategies but otherwise attempting to influence what happens to those strategies that do emerge lower down.” They can do this by managing process or through the use of umbrella strategy.

A grassroots model of strategy formation

Strategies grow initially like weeds in a garden; they are not cultivated like tomatoes in a hothouse. (The strategy process can be over managed; it's better to let patterns emerge than to force an artificial consistency.)

These strategies can take root in all kinds of places, virtually anywhere people have the capacity to learn and the resources to support that capacity. (Individuals may get an idea by accident; top managers may hit on an idea, or many ideas may converge as the result of mutual adjustment.) Such strategies become organizational when they become collective, that is, when the patterns proliferate to pervade the behaviour of the organization at large.

The processes of proliferation may be conscious, but need not be. Likewise, they may be managed but need not be. (Initial ideas need not be consciously intended; patterns may spread by collective action. Once the ideas seem good, they may then be managed.)

New strategies, which may be emerging continuously, tend to pervade the organization during periods of change, which punctuate periods of more integrated continuity. (In other words, there will be periods of stability punctuated by periods of change. In innovative organizations, these periods cycle regularly; in machine organizations, the stable periods are longer, and the change periods are short and revolutionary.)

To manage this process is not to preconceive strategies, but to recognize their emergence and intervene when appropriate.

“I call this a 'grassroots' model because the strategies grow up from the base of the organization, rooted in the solid earth of its operations rather than the ethereal abstraction of its administration.” There are really three models of strategy formation: the learning model (associated with the innovative organization), the planning model (associated with the machine organization), and the visionary model (associated with the entrepreneurial organization). “All organizations need to mix these approaches in various ways at different times in their development.”

Environment taking precedence in the innovative organization

“In the IO it is the environment that takes precedence. It drives the organization, which responds continuously and eclectically, but does nevertheless achieve convergence during certain periods...The strategist of the innovative organization is largely a pattern recognizer, seeking to detect emerging patterns within and outside the strategic umbrella.”

Issues

Human reactions to ambiguity: Many people, especially creative ones, dislike structural rigidity and the concentration of power. For these people, the adhocracy is a great place to work. Other people need more structure, and so they prefer the machine organization or the professional organization. Even dedicated members of adhocracies periodically get frustrated by the structure's fluidity, confusion, and ambiguity. Sometimes the innovative form gets overly politicized.

Problems of efficiency: The IO is excellent for devising novel solutions. But it is inefficient. One source is the unbalanced workload. The most important source is the high cost of communication, the mutual adjustment.

The dangers of inappropriate transition: To handle the problems of ambiguity and inefficiency, the firm may elect to change configuration. This is done most easily in the operating adhocracy, which could pick a program at which it is most skilled, and become a professional organization. It could also pick one niche and convert to a machine organization. But these transitions may be inappropriate. Society already has many mass producers—it needs creative organizations. The administrative adhocracy faces a more serious danger. If it converts to a machine organization, it risks losing adaptability and innovativeness, and so it can eventually destroy itself.

Discussion Questions

1. *Why must the innovative organization “avoid all the trappings of bureaucratic structure”?*

Bureaucracies are very formalized. Everything is standardized. Jobs are severely circumscribed. These are all things that work to dampen innovation. To innovate, firms must be flexible, unstandardized, and multidisciplinary. People can't be allowed to worry about job descriptions, standard operating procedures, or whose job is whose.

2. *What is the distinction between simple and sophisticated innovation, and how valid is it?*

Simple innovation involves finding new applications for existing approaches, or finding new niches for existing operations. Entrepreneurs excel at this. Sophisticated innovation consists of discovering new things in the midst of complex fields. This requires extensive training in the complex fields. It also requires groups of people getting their heads together, because complex innovation cannot be done by people acting alone. Obviously, the distinction is valid.

3. *Why must mutual adjustment be used to coordinate members of an innovative organization?*

Standardization, in any form, cannot be used, because it drives out innovation. Direct supervision can't be used because the work is too complex. So, coordination must happen using mutual adjustment, supported by numerous liaison devices. Mutual adjustment has the added benefit of bringing together teams of people who tend to do a better job at sophisticated innovation.

4. *What is the distinction between an operating adhocracy and an administrative adhocracy?*

The operating adhocracy innovates and solves problems directly on behalf of its clients. Examples would be research and development organizations, design firms, and some consulting firms. The administrative adhocracy undertakes projects to serve itself. The best examples are the top managements of firms in dynamic and complex environments, whose operating cores get in the way of top management's flexibility; say an oil refining company, whose operations are very routine, but whose industry is very dynamic and complex.

5. *What does the author mean when he says that "For every operating adhocracy, there is a corresponding professional organization"?*

Operating adhocracies are multipurpose problem-solvers. Faced with a problem, they will create a new solution. Mintzberg's point is that many of the problems faced by operating adhocracies have been faced by other organizations in the past. Some of them may have developed a standard solution to the problem, which they will apply to it each time they encounter it. This describes a professional organization—it doesn't come up with anything new, but merely applies the same solution to a problem, over and over again. One might say that professional organizations are single purpose problem solvers.

6. *How can the strategic apex of an organization with a machine bureaucratic operating core ever be truly an adhocracy, as the author suggests is the case in the administrative adhocracy?*

At first blush, this does seem to be difficult. There is always a risk that the routine part of the administrative adhocracy will "contaminate" the strategic apex, making it less flexible and adaptable. But that is precisely why the administrative adhocracy form arises. Managers want to minimize the risk of contamination, so they truncate the organization's operating core. This may not remove all the problems, but it is better than trying to become a machine organization, which will surely drive out innovation and adaptability.

7. *Why would most of the experts on which adhocracy is dependent on be housed in the support staff, thereby making it the key part of this configuration?*

In either kind of adhocracy, the need for traditional direct supervision is diminished, and managers derive their influence more from expertise and interpersonal skill than from formal position. Support staff plays a key role in adhocracy, because that is where many experts reside, especially in the administrative adhocracy. The support staff contains most of the experts who can help the adhocracy create the novel solutions, the innovations, for which it is known. The staff is not as sharply differentiated as it is in most other configurations. Technostructure plays virtually no role in adhocracies; most analysis comes from experts in the support staff.

8. *Which is the more challenging job, top management in a machine organization or top management in an adhocracy?*

This question is intended to stimulate discussion. The top management of machine organizations needs to be able to make the organization efficient for long stable periods, and then be able to recognize the need to adopt some different approach after a brief revolution. The different approach is usually based on either entrepreneurial or innovative initiatives. The top managers of innovative organizations must be able to handle its frequent disturbances, monitor all the projects, but mostly to act as liaison with the outside environment. In particular, they must keep the flow of projects up. Each type of top management has its own challenges. The management of innovative organizations may seem to be a bit more "exciting," but students will have a range of opinions about this.

9. *What does the author mean when he says that a successful operating adhocracy may have a short life?*

The life of a successful operating adhocracy is short because success breeds growth, and growth means greater size. As we saw in Chapter 6, increases in size typically lead to greater formalization and standardization. In other words, as organizations succeed and grow, they become machine organizations. So the successful adhocracy becomes, after a time, something other than an adhocracy.

10. *What happens when the operating core of a machine organization is automated?*

Automation drives the machine organization toward administrative adhocracy. The problem of motivating bored workers disappears, as does the control mentality of the structure. The distinction between line and staff becomes blurred, and the technostructure loses its influence. The administrative structure becomes more organic and decentralized. The operating core can be truncated, and the remaining strategic apex converts to an adhocracy, able to adapt more flexibly to environmental conditions.

11. *Mintzberg says that in adhocracies, "strategy is not formulated consciously in one place so much as formed implicitly by the specific actions taken in many places." What is your reaction to this statement?*

This question is intended to stimulate discussion. Many students will be puzzled by this statement. In most organizational forms we have examined so far, there is at least some explicitness to strategy-making. Machine organizations have their revolutions, missionary organizations have their ideologies, entrepreneurial organizations have their leaders' visions, and even professional organizations have the norms of the professions to which their workers belong. Here, we have strategy being formed implicitly. As foreign as this may sound, students will have to be reminded that this is indeed what happens in adhocracies. There is too much flux in them for it to be otherwise.

12. *How do you react to the statement, "any process that separates conception from action— planning from execution, formulation from implementation—impedes the flexibility of the organization to respond creatively to its dynamic environment"?*

This harkens back to Mintzberg's reading on Crafting Strategy from Chapter 4. There, he decried the tendency in the strategy literature to recommend that thinking and action ought to be separated, that analysis should happen first, and execution (or implementation) later. In his potter metaphor, the author pointed out that most potters don't spend a few days thinking, and then a few days doing pottery; they think and do at the same time. This is how they get ideas. Precisely the same dynamic holds for adhocracies.

13. *The author says that administrative adhocracies must rely on “action planning...of a loose kind”. Is this a contradiction in terms?*

To some extent, it is. Mintzberg says that the action planning in administrative adhocracies should focus on ends, not means. In that case, it sounds much more like performance control than action planning. What the author probably means by this phrase is that administrative adhocracies might profitably use modified versions of strategic planning, mostly for giving guidance to their truncated operating cores.

14. *How might managing an adhocracy be like “trying to drive an automobile without controlling the steering wheel”?*

Managers of adhocracies, to use the author's phrase, “can accelerate and brake but cannot determine direction.” The solutions created by the people working in adhocracies cannot possibly be envisioned in advance—they are completely new, by definition. Consequently, managers would be wasting their time if they tried to be very directive. In that sense, it is like trying to steer without using the steering wheel. Adhocracy managers do have some tools to control strategy-making, though. They can control processes and they can articulate strategic umbrellas.

15. *What's your reaction to the ‘weeds in the garden’ metaphor?*

Many students will find the metaphor a bit weak, since it is difficult to think of a weed that ultimately is worthwhile. (And this is despite the author's comment on dandelions being a salad green in Europe.) Nevertheless, the author makes his point. Not all strategies need be deliberately developed (“hothouse”). Some may just spring up (“weeds in a garden”).

16. *What are the implications of the idea that “strategies can take root in all kinds of strange places”?*

This is an admonition to managers to keep an open mind about where strategies come from. Not all good strategies will emanate from top management, or from corporate planning staffs. Sometimes, people at relatively low levels of the organization will have good ideas that can be developed into a strategy. As Pascale's reading about the Honda Effect in Chapter 4 pointed out, the Japanese are very good at getting their strategic ideas from a variety of places in their organizations.

17. *The author says that the process of grassroots strategy “may be conscious but need not be; likewise, it may be managed, but need not be.” How do you react to this?*

This is another one of those admonitions to management. The lesson is to be flexible. Sometimes it makes sense to be very deliberate. Other times it is more sensible to be

loose, and to let things emerge. Managers must be able to use either mode, and to recognize the times each is the more appropriate.

18. *Why is the following statement important: "To manage this [grassroots] process is not to preconceive strategies/ but to recognize their emergence and intervene when appropriate"?*

The answer to this is very similar to the answer to the previous question. Successful grassroots management requires monitoring and selective intervention. Some emergent strategies will not be worthwhile, and should be discouraged. The worth of others will be ambiguous. Still others will be clearly valuable. The role of management is to let all of these emerge until they are able to be judged, and then to decide on them. Preconception of strategies would be appropriate were a firm pursuing planned or other forms of deliberate strategy. But that approach would be detrimental to grassroots strategy-making in the innovative organization.

19. *Why isn't adhocracy the structure for all organization?*

Not all organizations need to be innovative. Not all organizations need to be set up to solve unique problems. Some organizations are needed efficiently to produce consumer goods. Others are needed effectively to provide high quality professional services. Still others are needed to fill niches in simple industries. To meet the first need, one should design a machine organization. The second need is best met by a professional organization. Entrepreneurial organizations excel at filling the niches in simple yet dynamic industries.

20. *How well do you think you would tolerate the ambiguity of adhocracy?*

This is purely a discussion question. There may be a more severe split in this question than many instructors would expect. Most students like structure. They like to be told what to do and when to do it. Even though most students like the idea of freedom, they also have a hard time visualizing the lack of structure characteristic of innovative organizations. It is likelier that M.B.A. students, or other more mature students, will better appreciate the freedom available in adhocracies.

21. *What is your reaction to the author's statement that "Society has more mass producers than it needs; what it lacks are true problem solvers"?*

This is obviously a value judgment on the author's part. There certainly are many mass producers. But it is difficult to say if there are too many. It is a little easier to agree with the author's statement that there is a lack of true problem solvers. There probably can never be too many innovators.

22. *Why may an administrative adhocracy be threatened with extinction if it transits to machine organization?*

If an administrative adhocracy converts to a machine organization, it is usually because management is tired of the perpetual change that characterizes administrative adhocracies. But, the standardization of the machine organization puts the administrative adhocracy at risk of losing its adaptability and innovativeness, and so it can eventually destroy itself.

MALETZ & NOHRIA, “MANAGING IN THE WHITESPACE”

Summary of Reading

Whitespace exists in all organizations: it is the large, but mostly unoccupied, territory in every company where rules are vague, authority is fuzzy, budgets are non-existent, and strategy is unclear. This is the space within which entrepreneurial activity takes place; the opportunities that fall outside the scope of formal planning, budgeting, and management (the “blackspace”). The task for senior managers is to avoid letting whitespace efforts “just happen.”

Choosing whitespace over blackspace, that is, departing from standard resource-allocation processes and evaluation criteria, is properly determined by three conditions: where there is great uncertainty over a recognizable but time-constrained business opportunity; where normal forms of organizational coordination would be too difficult or too slow; and where exploiting the opportunity in the blackspace would be too disruptive.

Managers operating in the whitespace face four key challenges: *establishing legitimacy* (whitespace projects don’t have a formal launch and the project manager must work hard to establish support, but also exploit the protection that invisibility can bring); *mobilizing resources* (bootstrapping resources through persistence, creativity, and a willingness to work with what you can get rather than what you think you need); *building momentum* (important to this will be communicating to blackspace managers that an organizational and not a personal agenda is being pursued by, for example, sharing credit, and also making the project more visible though, for example, prototypes); and *measuring results* (the lack of official budget allocation makes credible number crunching difficult; to compensate, the support of senior managers must be enlisted).

Senior manager can help whitespace projects by framing the whitespace work broadly, by providing organizational and moral support in addition to modest financial resources, by balancing keeping a low profile for the project with publicizing its early successes, and by keeping on top of whitespace projects with the assistance of an informal network of opinion leaders. Finally, as the project matures, senior managers will need to choose a longer-term home for the project: migrate to blackspace, stay in whitespace, or kill it. Migrating to blackspace is appropriate for high value, high visibility projects; staying in whitespace is appropriate if one or more of the three initial whitespace conditions remain significant; and killing the project will be appropriate if it is of little apparent direct or indirect value and is continuing to drain resources.

Discussion Questions

1. *What do you think is the key insight of this reading?*

Students will likely be struck by the evocativeness of the term “whitespace”, and should be encouraged to focus on why such a space is significant to value creation. The key insight offered by the reading in this regard is that whitespace exists in every organization and corresponds to what other authors have identified as informal processes exists. It should not be just taken for granted: it should be deliberately managed, though less deliberately than blackspace, to maximize its value-creation potential. Deliberately

managing it involves determining what belongs there and what doesn't (the three "whitespace conditions" identified in the reading), how a project best functions there, and how long a project should subsist there. This involves adding a degree of formality to what is inherently informal context, and therefore echoes arguments in earlier chapters (such as Chapter 5) that strategy-making mixes the deliberate and the emergent.

2. The authors suggest that one option for the continued existence of a whitespace will be to move it to blackspace. When will such a move be appropriate and when not?

Such a move will be appropriate when the project can readily secure resources for its on-going survival and growth with established (or, blackspace) resource-allocation processes. To do so, the whitespace project will need clearly to address the needs of mainstream customers and earn margins similar or superior to those of existing product lines. If the project is addressing small peripheral markets and earning inferior margins, its existence in blackspace will be continually threatened by competing needs. However, such apparently inferior opportunities may be where the future of the mainstream market lies. Key to ensuring the survival of whitespace projects directed towards such a future will be that they function according to processes and criteria distinct from those of blackspace projects and tailored to the opportunities they are addressing. This echoes the argument presented in the Day and Schoemaker reading in Chapter 9.

MILES, SNOW, MATHEWS, MILES, & COLEMAN, "ANTICIPATING THE CELLULAR FORM"

Summary of Reading

This reading revisits the theme of the previous chapter on the co-evolution of the basis of competitive advantage (from capital intensity to information intensity to knowledge management) and new organizational forms. It reiterates the point that for many firms innovation is becoming a continuous, rather than occasional, activity. However, an understated aspect of this is that organizational inputs and outputs become highly unpredictable. Self-organizing will be key to success: coordination reflects the knowledge needs and data-sharing opportunities recognized by those working on a project, who often will be independent designers. The organizational-design response is for the firm to become cellular, relying heavily on clusters of entrepreneurial self-organizing components collaboratively investing the firm's know-how in product and service innovations for markets they have helped create and develop.

The cellular metaphor is chosen because it emphasizes the adaptive and organic nature of organizing, and how evolving characteristics can take the form to a higher level if these are shared across cells. Continual reorganization occurs not just between cells, but within each one, iteratively reconfiguring technical, collaborative, and management skills in the context of cell-organization defined protocols for internal and external collaboration. Key to achieving this will be vesting ownership of cell resources in the members. The cellular includes aspects of earlier forms: the dispersed entrepreneurship of the divisional form, customer responsiveness of the matrix form, and self-organizing knowledge and asset-sharing of the network form. The value-added of the cellular form to any form that has preceded it is that it lends itself to sharing tacit know-how that emerges when cells

combine to design unique new customer solutions. This value-added is reinforced by cells' entrepreneurial responsibilities keeping the firm's total knowledge assets highly invested.

Discussion Questions

1. What accounts for the changes in organizational form across business eras?

An organizational form is an overall logic shaping a firm's strategy, structure, and management processes into an effective whole. In each historical era, market forces pull forth new organizational forms as managers seek new ways of arranging assets and resources to produce the products and services that customers want and expect. At the same time, some companies accumulate more know-how than their present operating logic allows them to utilize. Those excess capabilities push managers to experiment with new organizational arrangements that, in turn, stimulate the search for new markets and/or new products or services. The continuing interaction of these push-pull forces generates an evolutionary process of organizational form around the abiding search for ever-increasing effectiveness and efficiency in the ability to fully apply know-how to resource utilization.

Thus, standardization organized through hierarchy, focused on the exploitation of capital goods, and seeking to create value through specialization, gave way to the customization of the network form which focuses on adaptability and responsiveness, and this in turn giving way to the innovation of the cellular form and its focus on design creativity.

2. How do you think firms might partially use the cellular form in order to improve their performance?

A "configuration" argument would suggest not. However, the authors' emphasize that the cellular form is evolutionary and therefore at least in the medium term it should be possible to adopt it partially. The possibility of doing so is flagged by the authors' observation that the cellular form incorporates aspects of earlier forms. However, consistent with a configuration argument, some form of structural isolation will likely be necessary. For example, the principle of self-organization could be independently applied to a particular function or process. For example, improvement in the manufacturing process could be effected by organizing in terms of cells, with each cell consisting of a small group of machines and a team of highly trained employees who collaborate in the production of a well-defined set of products for a specific group of customers. As opposed to the functional organization of manufacturing, where machines are grouped according to task performed and products or parts are produced through specialized batch methods, this cellular approach would divide the stream of production into parallel flows, giving the members of each cell responsibility for planning their own operations and ensuring that the quality of their output meets specified performance standards, interfacing with their suppliers and customers, and responding to unusual circumstances. The two other principles of entrepreneurship and member ownership could also be applied independently – for example, as an approach to managing the "whitespace" discussed in the previous reading. The Acer group (see case collection) and *Semco* (see

the Semler reading in Chapter 18) provide examples of full and partial cellular forms, respectively.

LAMPEL, “THE CORE COMPETENCIES OF PROJECT-BASED FIRMS”

Summary of Reading

This reading further develops the idea of on-going reconfiguration suggested in the preceding reading. The subject focus of the current reading, however, is a fairly long-established type of firm: the project-based firm (engineering-procurement-construction, or EPC, firm) whose primary business is designing and building large engineering projects. Such firms are required to core-configure their resources on a project-by-project basis. The reading proposes a framework for understanding how they do so in terms of four types of competencies that these firms manage: entrepreneurial, technical, evaluative, and relational competencies.

Entrepreneurial competencies denote marketing and project-opportunity know-how. They define the capability to originate and win commissions for large-scale projects, in the face of the typical and considerable risk-adversity on the part of clients. *Technical competencies* denote basic know-how and the ability to design and execute a project. They define the capability to translate what the sponsor wants (the sponsor defines the project) into a technically feasible bid proposal in order to win a contract. *Evaluative competencies* denote costing and risk-assessment know-how. They define the capability to properly price the contract; this will be crucial to profitability as price terms are difficult if not impossible to revise once the contract has been signed. That most projects are significantly unique makes such evaluation even less amenable to formal costing analysis. *Relational competencies* denote know-how for project development and re-negotiation. They define the capability to manage the interactions between the many actors that a typical large project will bring together. The need for intensive interaction, the inability to anticipate many contingencies because of the interdependent nature of the work, and the absence of centralized control all endanger the productive interaction of these actors, and especially interaction with the client.

Several strategies are open to EPC firms in order to create and capture value from these competencies. In a focussing strategy, the firm targets opportunities close to existing competencies, and builds competency depth rather than breadth. In a switching strategy the firm pursues a wide range of lucrative opportunities, emphasizing competency breadth rather than depth. The combining strategy is somewhere in between, but focuses first on related opportunities and then works backwards to competency cultivation.

Discussion Questions

1. *What does this reading add to our understanding of innovation?*

Because of its emphasis on project-based organizations, this reading encourages us to think about “project” – not department or division – as the fundamental unit of organization design. This further develops the theme of flexible organizing covered in this and preceding chapters. If the project is the fundamental unit, this implies that some distinctive kinds of core competencies will also characterize this type, and the explains

the author's attention to this issue, and in particular the issue of the governance of the project: who will be involved, what will they contribute and how will this be measured, and how will interaction with them be effected. At the heart of this reading, therefore, is a notion of "disposable" organization. (see Chapter 18), with much of what "organization" denotes lasting only until project completion.

CHAPTER 17: MANAGING DIVERSITY

MINTZBERG, "THE DIVERSIFIED ORGANIZATION"

Summary of Reading

The basic structure of the diversified organization is set of semi-autonomous units (divisions) coupled by a central administrative structure (headquarters). Divisions are created to serve distinct markets and are given control over the operating functions necessary to do so. Each appears to be a self-standing business, but headquarters *does* exist, distinguishing the diversified organization from a set of independent businesses. There is a small strategic apex, a small technostructure (to design performance control systems), a slightly larger support staff, and divisions composed of machine organizations.

Roles of headquarters

Headquarters sets standards in quantitative tempts, monitors results (i.e., standardization of outputs is prime coordinating mechanism) with minor supplement from direct supervision (*performance control*). It also establishes and maintains the portfolio of businesses (*development of overall corporate strategy*), takes excess cash from some divisions and invests it in others (*management of funds movement among divisions*). Other functions include the design and operation of performance control system, appointment and replacement of division managers, and provision of support services common to all divisions.

Structure of the divisions

It has been common to label diversified organizations decentralized. But decision-making power tends to remain with the few managers who run the businesses. It is actually the *centralization of power* within the divisions that is most compatible with the divisionalized form of structure. "The effect of having a headquarters over the divisions is to drive them toward the machine configurationThe proliferation of the diversified configuration ... has the effect of driving many sub-organizations toward machine bureaucracy, even where that configuration may be inappropriate."

Standardization of outputs is key, namely, granting divisional autonomy while exercising control over performance. This is based on the assumptions that each division must be treated as a single integrated system with a single, consistent set of goals, and that the goals must be operational ones, i.e., amenable to quantitative measurement. Only the machine organization fits comfortably into the conventional diversified organization, by virtue of its integration and its operational goals. When organizations with other configurations are drawn into a diversified organization, they tend to be forced into machine configuration. This is another manifestation of the phenomenon that concentrated external control of an organization (here, by headquarters over divisions) formalizes and centralizes the structure.

Conditions of the diversified organization

Diversity of markets above all else is what drives organizations to adopt the diversified configuration. Three kinds of market diversity: product/service, client, and region. In theory, all three may be the basis for divisionalization. But the second and third usually lead to incomplete divisionalization, because the central organization is encouraged to hold on to central control of critical functions. This reduces divisional autonomy, leading to less-than-complete divisionalization. For example, insurance companies keep investment at headquarters, and retailers keep merchandising and purchasing at headquarters. Regionally-divisionalized businesses like bakeries, breweries, cement producers, and soft drink bottlers all lack the autonomy nominally associated with divisions that produce distinct products or services.

Size in itself does not bring on divisionalization, but most large corporations use divisionalization. One reason is protection—large organizations are risk-averse, and diversification lets them spread the risk. Another reason is that large firms tend to dominate their markets, and need to diversify to find opportunities elsewhere. Also, diversification feeds on itself, creating a cadre of aggressive middle managers. Age is also associated with diversified organizations. Maturing markets encourage firms to diversify. Governments divisionalize because the central managers cannot control the agencies directly. They settle for divisionalization supported by standardization of outputs and machine organization divisions.

Stages in the transition to the diversified organization

These are four in number. In the *pure functional form* operating activities form one integrated, unbroken chain from purchasing through production to marketing and sales. As the integrated firm seeks wider markets, a less-risky way to do it is to sell intermediate products, hence arises the *by-product form*. As these by-products grow in significance, the firm evolves into the *related-product form*, selling a variety of end products to markets that have a “common thread”—core skill, core technology, central market theme. Finally there is the *conglomerate form*, a pure divisionalized form where each division serves its own markets, producing products unrelated to those of the other divisions.

Issues

It has been argued that the diversified configuration offers four advantages over the machine organization: efficient allocation of capital, training-ground for general managers, risk diversification, and strategic responsiveness (divisions can fine-tune their machine organizations, headquarters can concentrate on the portfolio of businesses). But is the diversified organization with 397 divisions truly better than 397 independent companies?

- Williamson says that a diversified organization can allocate money more efficiently than can capital markets. But an investor looking at her own portfolio of, say, ten businesses has more information than an investor in a diversified organization that has ten divisions;
- The diversified organization *does* provide some management development activities that are hard to find in independent companies, but it could be argued that the president

of the fully autonomous company gets more development than the manager of a division that is constrained by headquarters.

- It may be that independent companies are more vulnerable during economic downturns, but diversified organizations may conceal bankruptcies by holding on to ailing divisions too long. Also, the track record of highly divisionalized companies has been poor;
- Divisionalization seems to inhibit, not encourage, the taking of strategic initiatives. The performance control system dampens the inclination to innovate. Entrepreneurship does not flourish under diversified organization.

What does the headquarters of a diversified organization contribute, compared to the board of directors of an independent company? Neither can be involved in day-to-day management, but each *should* be involved in goal-setting and performance control. Diversified organization headquarters probably do a better job at this, but their larger size, large number of divisions, and widely-held ownership negate much of this advantage. Large diversified organizations tend to be rather closed systems. They control their internal divisions *and* their external environments. But when problems arise in a division, control is difficult, particularly if the diversified organization is very diverse. This is probably why firms characterized by “controlled diversity” outperform those with conglomerate diversity.

The quantitative nature of the performance control system in most diversified organizations drives out goals that cannot be measured—product quality, pride in work, customers well served. The economic goals drive out the social ones. This would not be a problem if economic and social consequences of decisions could be easily separated, but they cannot. This drives the diversified organization to act in socially unresponsive, sometimes irresponsible, ways.

Governments often respond to social problems with a divisionalized configuration. Ironically, this only aggravates the problems of power concentration and social irresponsibility. The problem is actually worse in government, since most of its goals are social, and so ill-suited to performance control. There are other problems. Divisions cannot be divested in government. And regulation often precludes the needed autonomy of the division.

“The pure (conglomerate) diversified configuration emerges as an organization perched symbolically on the edge of the cliff.... Ahead, it is one step away from disintegration—breaking up into separate organizations on the rocks below. Behind, it is the way back to a more stable integration, in the form of the machine configuration....Hovering above is the eagle, representing the broader social control of the state”

Discussion Questions

1. *Why is the diversified organization driven toward standardization of outputs?*

The diverse nature of the divisions means that they must be given autonomy. Headquarters cannot possibly keep track of what needs to be done in each business unit, so it lets the unit managers handle that. But to maintain some control, headquarters mandates that the divisions meet some performance targets. To make these targets

meaningful across divisions, the system used to measure them is standardized. Hence, the diversified organization ends up with standardization of outputs, financial performance ones in their case.

2. Why are the divisions of the diversified organization driven toward machine organization?

Headquarters cannot control the divisions *directly*, but it must find a way to control their performance. This is facilitated if two assumptions are met: (1) each division must be treated as a single integrated system with a single, consistent set of goals, and (2) the goals must be operational ones, i.e., amenable to quantitative measurement. The best configuration for meeting these conditions is the machine organization. Also, when organizations are tightly controlled by outside forces (as the divisions would be by headquarters), there is a tendency for them to become machine organizations.

3. How desirable is the divisional autonomy Mintzberg discussed? How possible?

Students may be divided on the first part of this question. Some who are very interested in headquarters' maintaining control would find the idea of divisional autonomy undesirable. The counter-argument is that in corporations with diverse businesses, headquarters is incapable of running all the different businesses. The answer is to grant the business unit managers the autonomy to run the businesses, but keep them under some control. There seems to be a lot of difficulty at achieving divisional autonomy. Headquarters people seem inevitably to want to control things, even at the business level. Of course, this is not truly inevitable. In theory, it should be possible for divisional autonomy to be achieved.

4. In what sense is the middle line the key part of the diversified organization?

Even if the autonomy of is only partial, divisional managers (the middle line in diversified organizations) have a great deal of responsibility for assuring that the business strategy in the division is properly formed. True, headquarters measures their performance *after the fact*, but the only thing controlling them during the formation of the strategy is their own ability, their own quality. This makes them the key part of the diversified organization.

5. Is the diversified organization a response to market diversity, or do such firms seek out diverse markets?

The answer is a little bit of each. Firms facing diverse markets will respond better to each segment if they have separate units handling each one. This has been shown for a long time, ever since *Dupont* first did it in the 1920s. But once an organization has divisionalized, it is relatively easy for it to plug in another division to its headquarters. As a result, diversified organizations *do* tend to seek out even-more-diverse markets.

6. Why does growth in size seem ultimately to lead to divisionalization?

Size in itself does not bring on divisionalization, but most large corporations use divisionalization. One reason is protection—large organizations are risk-averse, and diversification lets them spread the risk. Another reason is that large firms tend to dominate their markets, and need to diversify to find opportunities elsewhere. Also,

diversification feeds on itself, creating a cadre of aggressive middle managers who want to diversify and divisionalize even more.

7. Which of the variations on the diversified organization, related-product and conglomerate, is more pure? Which would you expect would be more effective?

If pure is defined as "most autonomous," then unquestionably the conglomerate form is purer. Each division is a completely different business. Headquarters would be hard pressed to understand each, and therefore to intrude on the affairs of each. In a related-product corporation, headquarters could know more about each division, because each would be connected, in some way, to some well-known aspect of the business. Divisional autonomy would be lower. But for exactly the same reasons, it would be expected that the related-product form would be more successful. If headquarters seems bent on curtailing divisional autonomy, it is best if they know something about the business level at which the division is operating. This knowledge is much greater in a related-product firm than in a conglomerate.

8. Which of the four advantages of the diversified organization do you find the most compelling?

This question is intended to stimulate discussion. The four advantages are: (1) efficient allocation of capital, (2) training for general managers, (3) spreading of risk, and (4) strategic responsiveness. Students will no doubt differ on which of these is the most compelling. Capital is more efficiently allocated in a diversified organization, even though individual investors have power removed from them. Diversified organizations do tend to provide lots of management development opportunities, but there is nothing quite like running a business without the safety net of headquarters. Risk is spread in diversified organizations, but that does not seem to have improved their performance, overall. And diversified organizations are able to add divisions to respond to new strategic thrusts, but they are rarely the initiators of these new thrusts.

9. What is your opinion on the question of which is better—a headquarters, or a board of directors?

This question is designed to stimulate discussion. Neither can be involved in day-to-day management, but each should be involved in goal-setting and performance control. A headquarters probably does a better job at this, but the larger size, large number of divisions, and widely held ownership of diversified organizations negate much of this advantage. There is probably a greater possibility of society's exerting some control over a business if it has a board than if it is a division of large corporation. All in all, this question is a value judgment.

10. What do you think of the author's criticism of the social effects of the performance control system?

Some students may take issue with Mintzberg on this, but in general his criticism is well-taken. Performance control systems focus on quantitative goals, and social goals are not well-suited for them. Yet economic and social consequences of decisions are difficult to separate. As a result, diversified organizations may act irresponsibly when it comes to social performance.

Summary of Reading

There is no one best method for managing large groups of businesses. Asian Pacific approaches differ markedly from European and North American methods. This article highlights the differences between Europe and Asia.

European corporate archetypes

- *Industrial groups*. "Characterized by a portfolio of business activities which share a common set of competencies and in which a high degree of synergy is achieved by managing the key interdependencies at corporate level." These could be called "strategic planning" groups.
- *Industrial holdings*. "Corporations in which the business units are clustered into subgroups or sectors...Synergies are strong within subgroups and weak between subgroups." Value creation is delegated to subgroup management; the corporate level implements planning and control systems. These could be called "strategic control" groups.
- *Financial conglomerates*. "Characterized by a constellation of business units which do not necessarily share any common source of synergies and whose corporate value is . . . created by the imposition of management discipline, financial leverage, and the management of acquisitions and restructuring." These groups rely heavily on financial controls systems and could therefore be called "financial control" groups.

Asian corporate archetypes

- *Entrepreneurial conglomerates*. "...widely diversified into a large number of unrelated activities ranging from banking, trading, real estate, manufacturing and services. These groups are usually under the leadership of a father figure who is the key strategic actor." Little attempt is made to manage synergies. Value creation is based on the father figure's ability to leverage financial and human resources, make political connections, make deals, and impose loyalty and discipline on business units. These are common in Southeast Asia, Korea, Taiwan, and Hong Kong.
- *Keiretsus*. "Super groups or clusters of groups in which businesses are either vertically integrated . . . or horizontally connected. Although some companies in the groups exercise greater power than others, Keiretsus are not hierarchically organized. They are like a club of companies that share common interests." Value is added by informal coordination of key activities, transfer of expertise in personnel rotation, and strengthening of supplier-distributor chains.
- *National holdings*. "...have been formed more recently as an expression of industrial independence . . . to capitalize on domestic markets and public endowment." Value creation stems from "nationality."

Two dimensions: organizational setting and corporate control

“Corporations around the world appear to cluster themselves around four types of corporate organizational settings.”

- *Federation*. The centre plays an important role in managing synergies. Integration and coordination are the major sources of advantage. Methods include centralized functions, strategic planning, strong corporate identity and socialization of personnel. Typically found: European industrial groups, some Asian national holdings.

- *Confederation*. The centre allocates resources, guards corporate identity, and renews strategy. Business units have strategic autonomy under the "corporate umbrella." Has bottom-up planning, negotiated strategies, autonomy, and central financial and human resource mechanisms. Typically found: European industrial holdings, Asian national holdings.

- *Constellation*. Organized as many uncoordinated businesses. Each unit is linked (directly or indirectly) to the centre. Role of the centre is “hands-on” in Asian entrepreneurial conglomerates and “hands off” in European financial conglomerates. Characterized by one-to-one contractual agreements between the centre and the business units.

- *Connexion*. Either no centre or several centres. Some loose coordination (meetings) and some tight coordination (long-term contracts). Keiretsus are best example.

"Corporate control describes how groups ensure that business units' performances and behaviours are in line with corporate expectations." Five major methods exist:

- *Financial controls*. Uses financial goals based on financial standards. Most common in European financial conglomerates.

- *Control by systems*. Based on implementation of planning and control mechanisms like strategic planning, capital budgeting, control reviews, etc. Predominates in European industrial holdings and industrial groups.

- *Control by strategy*. Emphasis is on the appreciation of the strategic trajectory of the business units and how they fit into the corporation's strategy. Uses task forces, conferences, informal meetings and so forth. Most common in European industrial groups and, to some extent, Keiretsus.

- *Personalized control*. Exercised by direct interface between group chairman and business unit managers. Is subjective and holistic. This is the nearly exclusive method used in Asian entrepreneurial conglomerates.

- *Ideological control*. Focus is to make sure that managers have internalized the values of the group and are behaving accordingly. What matters most is development of strong beliefs, norms, and values. Most important processes are recruitment, selection, socialization training, and personnel rotation. Prevails in Asian national holdings and vertical Keiretsus.

Comparing European and Asian groups

Asian and European groups live in different worlds. Each type of organizational approach tends to differ in how it controls its operations and how it designs its organizational setting. Thus *Keiretsus* emphasize connection through either strategy or ideology, *entrepreneurial conglomerates* favour a constellation setting based on personalized control, and *national holdings* tend to be confederations that are knit together using ideology—a sense of belonging and a nationalistic stand.

Financial conglomerates are constellations driven by numbers, *industrial holdings* tend to be confederations that rely on systems to keep things under control, and *industrial groups* are federations that coordinate using structures and regulations. Western corporate designers tend to use an “engineering” approach. They tend to believe that human behaviour can be manipulated by organizational mechanisms. Asian corporate designers think of enterprises as living entities where groups and individuals can gain through cooperation. Organizations are compared to families, seen not as machines but as “codified relationships.”

Decoding Asian forms

Western firms often try to emulate Asian firms that are giving them trouble. “This . . . reflects an engineering view of the organizational world: the machine ‘works’ in Japan, why don’t we import the machine? It is as if we asked U.S. society to renounce individualism.” It would be better to try to understand how relationships function in Asian organizations; to decode rather than imitate. To do so requires three attitudinal changes. First, *getting rid of a priori judgements*: Western managers too often rely on ready-made explanations for Asian success, e.g., Japan, Inc. This causal engineering thinking is too simplistic. They should work first to understand the functionality of social structure, and only second work on causality. Second, *investing in the study of cultures and societies*: “One of the dangers of ‘instrumental’ thinking is that it bypasses what is not considered of immediate relevance. Cultural and social knowledge are all too frequently considered to be a waste of time....” Organizations and business behaviour are part of a society’s cultural heritage, and Asian cultural heritage is very rich, complex, and heterogeneous. Western managers should make the necessary efforts to understand it. Thirdly, *resisting the temptation of “easy translations”*: it is all too easy to adopt superficial and naive “Asian” ways of doing things. Deeper understanding is required.

Discussion Questions

1. *How do the European types of corporate structure differ from the familiar North American types discussed by Mintzberg in the previous reading?*

Not much at all. *Industrial groups* are essentially diversified organizations with strong headquarters. *Industrial holdings* are collections of diversified organizations under a very large corporate umbrella. The groups that form the holdings are really just indicative of an extra layer of hierarchy or management. *Financial conglomerates* are much the same as unrelated conglomerates in North America.

2. *How do the Asian types of corporate structure differ from the ones found in North America?*

Entrepreneurial conglomerates may superficially resemble regular conglomerates, but the key difference is that the former are headed up by a patriarchal entrepreneur, literally a family figure. *Keiretsus* are large groups of firms that share a common interest and interlock control through informal contacts and interlocking boards. There is no analogue in North America. *National holdings* appear to be unique to those countries, seemingly mostly in Asia, that appear to be emerging from developing status and wish to propel themselves along more quickly with nationalized companies that compete globally. There is nothing similar in North America.

3. *What are the distinctions among the four organizational settings described by the author?*

The differences relate to the role of the centre. In *federations*, the centre is strong and exerts direct control over the units. In *confederations*, the balance of power between the centre and the units is more balanced. *Constellations* come in two forms, ones whose centres are hands-on (as in the entrepreneurial conglomerates) and ones where the centres are hands-off (as in European financial conglomerates). Either way, the centres in constellations have one-to-one contractual relationships with their units. Lastly, in the *connexion* type of corporation, there is either no centre or many centres. This form is really a network.

4. *How do the different types of corporate control relate to what we have seen earlier in this book?*

Financial control is virtually identical to the standardized financial control used by the archetypal diversified form Mintzberg discusses in the previous reading. *Systems control* is also closely related to this, perhaps more so in a diversified form that has matured into a machine form. *Strategy control* is related to Hamel and Prahalad's strategic intent. *Personalized control* typical in entrepreneurial conglomerates is the entrepreneurial organization writ large. Lastly, *ideological control* is closely related to the missionary organization's primary coordinating mechanism.

5. *What is your reaction to the author's comments about the different organizational approaches of Europe and Asia?*

The author is subtly critical of the Western tendency to see things in a mechanistic, instrumental way. It should be interesting to see how many students see things that way as well. He says that the Asian approach is much more organic, holistic and social, that it cannot be adopted like a machine part. It must be lived. There are many managers in the West who would understand this. They are the ones who have worked long and hard to create distinctive cultures in their time. But too many Western managers think that a better culture is available to them in a short time with relatively little effort. Such is not the case.

6. What is your reaction to the author's comments about how many Western managers view cultural and social knowledge being a waste of time?

Students may not fully appreciate how, particularly in engineering-oriented organizations, direct consideration of social phenomena is not valued at all. There may even be some students who agree with this view. The author's point is that all people are embedded in a cultural heritage. Many astute Asian business people have made the investment needed to understand Western culture. Western managers must make the same investment or they will be unprepared for doing business in the East.

PORTER, "FROM COMPETITIVE ADVANTAGE TO CORPORATE STRATEGY"

Summary of Reading

A diversified company has two levels of strategy: business unit (or competitive) strategy, and corporate (or company-wide) strategy. Competitive strategy concerns how to create competitive advantage in each of the businesses in which a company competes. Corporate strategy concerns two different questions: what businesses the corporation should be in, and how the corporate office should manage the array of business units. The track record of corporate strategies has been dismal. From 1950 to 1986, the 33 firms studied had divested many more acquisitions than they had kept. "The corporate strategies of most companies have dissipated instead of created shareholder value." Shareholder value might be used as the basis to judge performance. But this works only if you compare "shareholder value that is" with "shareholder value that might have been" (without diversification). Since that is virtually impossible, a different measure is used—the number of units retained by the company. From a study of 33 companies, Porter finds that more than half of acquisitions in new industries were divested, more than 60% of acquisitions in entirely new fields were divested, fourteen companies left 70% or more of their new-field acquisitions, and for *unrelated* acquisitions the divestment rate was a startling 74%. "Only the lawyers, investment bankers, and original sellers have prospered in most of these acquisitions, not the shareholders."

Premises of corporate strategy

Successful corporate strategy builds on a number of premises:

- Competition occurs at the business unit level (it is the business units of corporations that compete; corporate strategy grows out of and reinforces competitive strategy);
- Diversification inevitably adds costs and constraints to business units (these include not only the obvious ones like overhead, but also the time and energy spent explaining things to headquarters and complying with corporate policies);
- Shareholders can readily diversify themselves (people can buy their own portfolios, usually more cheaply than a firm because they do not have to pay acquisition premiums; corporate strategy must therefore add something truly distinctive).

Passing the essential tests

There are several key questions to test the value of a proposed diversification:

- *How attractive is the industry?* The industries chosen for diversification must be structurally attractive or capable of being made attractive. Attractive means that there are high entry barriers, suppliers and buyers have only modest power, substitutes are few, and rivalry is stable. A feeling of good fit, low entry cost, or early industry growth often seem like good reasons to diversify, but they will not offset fundamentally poor industry structure.
- *What is the cost of entry?* The cost of entry must not capitalize all the future profits. A company can enter new business by acquisition or start-up. Acquisitions are being tried in an increasingly efficient merger market; multiple bidders are commonplace. In a start-up, entry barriers must be overcome. In general, the more attractive a business, the higher its entry cost.
- *Will the business be better off?* Either the new unit must gain competitive advantage from its link with the corporation, or vice versa. If the benefit happens only once, the diversified company should divest as soon as possible. "The better-off test does not imply that diversifying corporate risk creates shareholder value in and of itself. Doing something for shareholders that they can do themselves is not a basis for corporate strategy Diversification of risk should only be a by-product of corporate strategy, not a prime motivator...The whole point of diversifying . . . is to create shareholder value rather than to avoid destroying it."

Concepts of corporate strategy

The three tests of corporate strategy are so difficult that most diversification fails. Four concepts of corporate strategy have been put into practice; "ignoring any of the concepts is perhaps the quickest road to failure." These concepts - portfolio management, restructuring, transferring skills, and sharing activities - are discussed below.

- *Portfolio management.* This is the most commonly used concept. Sound businesses are acquired, usually in some bounded way, to limit the expertise needed by top management. The acquired units are autonomous, and their managers are compensated according to unit results. The corporation supplies capital, skills, and performance review. Resources are transferred from cash generators to cash needers. The validity of this concept has eroded. Good acquisitions are easy to find. A corporate headquarters is no longer needed to supply capital for a sound strategy. Management skills are more widely available, and, anyway, the feeling is that management is better with industry-specific knowledge. But the sheer complexity of the management task has ultimately defeated the portfolio managers. As the corporation gets too large, managers make mistakes. A new team is brought in to pare the company down to manageable size and scope. This approach may still work in developing countries, but not in advanced economies. "Portfolio management is no way to conduct corporate strategy."

- *Restructuring*. "This strategy seeks out undeveloped, sick, or threatened organizations or industries on the threshold of significant change. The parent intervenes, frequently changing the unit management team, shifting strategy, or infusing the company with new technology." It may also make complementary acquisitions. The result is a strengthened company or industry. The stronger units are then sold off, as the parent can no longer add value. This concept is sound because it passes all three tests of successful diversification. The cost of entry is low, the companies/industries have unrealized potential, and they are better off after being acquired. "Ironically, many of today's restructurers are profiting from yesterday's portfolio management strategies...Perhaps the biggest pitfall . . . is that companies find it very hard to dispose of business units once they are structured and performing well."

- *Transferring skills*. The first two concepts seek to create value through the relationship between headquarters and the units. The last two concepts exploit the interrelationships among the units. This leads to the often ill-defined concept of synergy. The proper way to approach synergy is through the value chain. Each unit in a diversified company has its own value chain. Synergy occurs when units either transfer skills among similar value chains, or share value-chain activities. Transferring skills leads to competitive advantage only if the similarities among businesses meet three conditions:

1. The activities involved in the businesses are similar enough that sharing expertise is meaningful. Broad similarities are not enough.
2. The transfer of skills involves activities important to competitive advantage. Peripheral skills are not important for this.
3. The skills transferred represent a significant source of competitive advantage for the receiving unit, i.e., they are advanced, proprietary, and beyond the capabilities of competitors.

This approach will meet the three tests of acquisition if the firm truly mobilizes distinctive expertise across units. Firms can lower entry costs, make a difference, and even restructure so-so industries, if they implement this properly. If the company exhausts opportunities to infuse expertise into the unit after the initial post-acquisition period, the unit should ultimately be sold. The approach can be used either through acquisitions or internal development.

- *Sharing activities*. This involves sharing activities in the value chains among business units. This can be potent because it enhances competitive advantage by lowering cost or raising differentiation. But it has costs, like increased coordination and compromise of activities' designs so that they can be shared. But developments in technology, deregulation, competition, and information systems have provided many opportunities to create competitive advantage. This approach requires an organizational context that reinforces inter-unit cooperation. The typical diversified organization, with autonomous divisions, does not fit. The company must use horizontal mechanisms—strong sense of corporate identity, clear corporate mission statement emphasizing cooperation among units, a supportive reward system, cross-unit task-forces, and other mechanisms. This concept meets the three tests. Units are better off because of the tangible advantages they gain from one another. The internal barriers are cheaper to overcome. But the firm must still make sure that the industry is structurally attractive.

Choosing a corporate strategy

Both logic and experience “suggest that a company will create shareholder value through diversification to a greater and greater extent as its strategy moves from portfolio management toward sharing activities.” The four concepts are not mutually exclusive, and may indeed support one another. Successful diversifiers have made a disproportionately low percentage of acquisitions where the opportunity to transfer skills or share activities was absent. They operate in fields where each is related to many of the others. They make heavier-than-average use of start-ups and joint ventures. Successful companies have very good records with start-ups, but companies in general nevertheless seem to favour acquisition. Start-ups are often less risky than acquisitions, as Japanese diversification has shown. “None of the concepts of corporate strategy works when industry structure is poor or implementation is bad, no matter how related the industries are.”

A company can choose a corporate strategy by:

1. Identifying the interrelationships among already existing business units.
2. Selecting the core businesses that will be the foundation of the corporate strategy.
3. Creating horizontal organizational mechanisms to facilitate interrelationships among the core businesses and lay the groundwork for future related diversification
4. Pursuing diversification opportunities that allow shared activities.
5. Pursuing diversification through the transfer of skills if opportunities for sharing activities are limited or exhausted.
6. Pursuing a strategy of restructuring if this fits the skills of management or no good opportunities exist for forging corporate interrelationships.
7. Paying dividends so that the shareholders can be the portfolio managers.

“Defining a corporate theme is a good way to ensure that the corporation will create shareholder value. Having the right theme helps unite the efforts of business units and reinforces the ways they interrelate as well as guides the choice of new businesses to enter.” But companies must avoid creating shallow themes. “The failure of corporate strategy reflects the fact that most diversified companies have failed to think in terms of how they really add value [They need] a sharper focus on the tests of diversification, and the explicit choice of a clear concept of corporate strategy.”

Discussion Questions

1. *The author says, "The corporate strategies of most companies have dissipated instead of created shareholder value." Based on what appears in this reading, what is your reaction to this statement?*

Reaction to this assertion depends partly on whether one accepts the author's variable: number of units divested. If one accepts it as a valid measure of diversification success, then he's probably correct. The data quoted in the reading indicate that the vast majority of units were divested, presumably because the corporations no longer felt that they were worth keeping, i.e., they were no longer increasing shareholder wealth. The author also demonstrates that the most popular technique of corporate strategy, portfolio

management, has been a failure. This, too, supports the conclusion that most corporate strategies have not increased shareholder wealth.

2. What is your reaction to Porter's three premises of corporate strategy?

Porter's three premises are (1) that competition occurs at the business unit level, (2) that diversification inevitably adds costs and constraints to business units, and (3) that shareholders can readily diversify themselves. Some students may take issue with these premises. For example, many people believe that diversification helps make a company more profitable, by opening up new opportunities; Porter points to the costs and constraints of diversification. But in general, these premises are right on target. The key question at the business level has always been: "What must I do to compete successfully in this industry?" This is the basis of the first premise. The third premise was raised by Mintzberg in his reading in this chapter—is it better to spread risk through corporate diversification, when individual investors can do the job themselves?

3. How useful are Porter's three essential tests of diversification?

Porter's three tests are (1) how attractive is the industry; (2) what is the cost of entry; and (3) will the business be better off? These are extremely useful. Only by passing them does a firm operate under the proper premises. For instance, since competition happens at the industry level, and since corporate strategy builds on competitive strategy, then the nature of industry structure is crucially important. Since diversification adds costs and constraints, firms must take cost of entry into account. And since shareholders can diversify themselves, what is the corporation contributing by taking on the diversification itself?

4. The author states, "ignoring any of the concepts is perhaps the quickest road to failure." What does he mean by this?

The answer to this starts with the observation that if you diversify without having an underlying concept, you will surely fail. There has got to be some theme, some rationale, guiding the firm's diversification. Porter argues that, ideally, firms should be able to look at their corporate strategy through the lenses of all four concepts. But if they fail to use any, even the now-discredited portfolio approach, they will surely fail.

5. Porter says, "Portfolio management is no way to conduct corporate strategy." What is your opinion?

This is a provocative statement. The portfolio approach has dominated the literature, and the teaching, of corporate strategy for over twenty years. To assert that it is no way to conduct corporate strategy is extremely controversial. As a result, students will differ in their assessment of it. But Porter, being Porter, is probably correct. The greater efficiency, and expertise, of having a corporate headquarters allocate capital, relative to individual investors, is simply no longer true. And large scale diversified organizations are just too difficult and complex to operate with portfolio management. There are too many variables for which the portfolio manager has to keep track.

6. *What is your opinion of the restructuring concept?*

The premise behind restructuring is for poorly performing units, with potential, to be drastically turned around by coldly objective purchasers who add value by injecting new management, new technology, etc. The approach tends to pass the three tests. The purchase price paid by the restructurer is usually a discount. The industry being entered typically has potential. And the restructurer does add something to the unit's operations; once this is no longer true, the restructurer spins off the unit. Restructurers seem like the right people to sell poorly performing units to, if a corporation has a failed portfolio strategy. The problem is, to whom do the restructurers sell once they're through with a business? Implied strongly in most of Porter's discussion is that units may often be better off independent. This mirrors one of Mintzberg's arguments from his reading in this chapter.

7. *What is your assessment of transfer of skills as a corporate strategy concept?*

Porter's three conditions are (1) the activities must be similar enough that sharing expertise is meaningful, (2) the transfer of skills must involve activities important to competitive advantage, and (3) the skills transferred represent a significant source of competitive advantage for the receiving unit. There is little doubt that if the skills to be transferred meet these three conditions, they should be excellent bases for diversification.

8. *Why would we expect the sharing of activities to be particularly important for corporate strategy?*

The sharing of activities gives the potential for lower cost and higher differentiation. This is despite the coordination problems and the need for various new systems. As the author points out, developments in technology, deregulation, competition, and information systems have provided many opportunities to create competitive advantage. This concept meets the three tests. Units are better off because of the tangible advantages they gain from one another. The internal barriers are cheaper to overcome. But the firm must still make sure that the industries are structurally attractive.

9. *Porter says that both logic and experience "suggest that a company will create shareholder value through diversification to a greater and greater extent as its strategy moves from portfolio management toward sharing activities." What is your opinion of this assertion?*

Sharing activities is tangible, based not on insight but on hard work. The same is true for transferring skills. The other two concepts rely on special insight on which units should be acquired (restructuring), or questionable assumptions about what analysts can do (portfolio management). That is the logic to which Porter refers. As for the experience he mentions, much of the evidence he cites shows that the more successful firms make sure they have lots of opportunities to share activities or transfer skills.

10. *What is your reaction to the author's comment that successful diversifiers tend to use start-ups more than do the average diversified companies?*

This is not surprising at all. Throughout this text, mention has been made of the greater success of related diversification. Related diversification tends to be based on similar

skills. Most firms diversifying through start-up would tend to base their new businesses on existing skills. This would lower the risk and increase the likelihood of success.

11. *Does the section on "creating a corporate theme" link to anything from previous readings?*

This section is reminiscent of the missionary organization, with its emphasis on collective vision as the basis of strategy. The basic difference is that most missionary organizations operate at the business level, but Porter is advocating the use of these concepts at the corporate level. The section is also reminiscent of Mintzberg's Chapter 1 discussion of strategy as perspective; the direction of strategy using a worldview.

CHAPTER 18: MANAGING OTHERWISE

MINTZBERG, "BEYOND CONFIGURATION"

Summary of Reading

Forms and forces

"Lumpers" are people who categorize and synthesize. "Splitters" are people who analyze, and see all the nuances. From the standpoint of organization, "both are right and both are wrong. Without categories, it would be impossible to practice management. With only categories, it could not be practiced effectively." The author was mostly a lumper until a friend asked him if he really wanted to "Play LEGO" with his concepts. This reading is presented in the spirit of playing "organizational LEGO." It tries to show how we can use splitting, as well as lumping, to understand what makes organizations effective as well as what causes many of their fundamental problems.

The configurations are *forms*. Many organizations seem to fit naturally into one of the original five suggested by the author. But some do not fit, to the lumpers' chagrin. To respond to this, five *forces* have been added, each associated with one of the original forms:

Direction in the entrepreneurial form.

Concentration in the diversified form.

Efficiency in the machine form.

Proficiency in the professional form.

Learning in the innovative form.

Two other forces exist that are not necessarily associated with a particular form:

Cooperation, represented by ideology.

Competition, represented by politics.

For the lumpers, we now have a *portfolio of forms*, and for the splitters we now have a *system of forces*. Both views are critical for the practice of management. "One represents the most fundamental forces that act on organizations. All serious organizations experience all seven of them, at one time or another, if not all the time. The other represents the most fundamental forms that organizations can take, which some of them do some of the time. Together . . . these forces and forms appear to constitute a powerful diagnostic framework by which to understand what goes on in organizations and to prescribe effective change in them."

When one force dominates an organization, it is drawn toward the associated *configuration*, but must deal with *contamination*. When no force dominates, the organization is a balanced *combination* of forces, including periods of *conversion* from one form to another; there is a problem of *cleavage*. Contamination and cleavage require the management of *contradiction*, which is where ideology and politics come in.

Configuration

Dominant forces drive an organization to one of the pure forms. These are not "real," but are abstract models designed to capture some reality. Some organizations *do* match the pure forms closely. If the form fits, the organization should wear it. Configuration helps outsiders understand an organization.

The consistency of configuration keeps workers from being confused, and helps the organization be effective and efficient.

Contamination by configuration

The harmony, consistency, and fit that is configuration's greatest strength is also its greatest weakness. The dominant force can become so strong that it drives out everything else. For example, control in machine organizations may contaminate the innovators in research, but the "looseness" in adhocracies may contaminate the accountants.

Configuration out of control

When the need arises for change, the dominating force may act to hold the organization in place. The other forces have atrophied, and so the organization goes out of control. For instance, the machine organization in need of a new strategy may have no entrepreneurs and no innovators left to give it its new direction. The dominating force may drive the organization out of control directly, by simply becoming too strong, e.g., an obsession with control in the machine organization. In other words, behaviors that were once functional become dysfunctional when pursued to excess. Miller and Kets de Vries have developed five "organizational neuroses" that correspond roughly to the five forms:

Dramatic: the entrepreneur who takes the organization on an ego trip.

Compulsive: the completeness of control in machine organizations.

Paranoid: the collective tendency in some professional organizations.

Depressive: a result of an obsession with the bottom line in diversified organizations.

Schizoid: the need to innovate, but to get the commercial benefits from innovation, means a constant oscillation between divergent and convergent thinking.

Containment of configuration

"Truly effective organizations do not exist in pure form. What keeps a configuration effective is not only the dominance of a single force but also the constraining effects of other forces. This is *containment*. To manage configuration effectively is to exploit one form but also to reconcile the different forces."

Combination

Configuration is nice if you can have it. But some organizations all of the time and all organizations some of the time cannot have it. They must instead balance competing forces. Organizations like this are called *combinations*. It is probable that roughly half of all organizations are combinations.

Kinds of combinations

When only two of the five forces meet in rough balance, that is a *hybrid*. Some organizations experience *multiple combinations*. In some cases, the forces interact in a steady state. In other cases, the interaction is separable in place and time.

Cleavage in combinations

Sometimes combination encourages *cleavage*. Instead of one force dominating, two or more confront each other to the point of paralyzing the organization. A good example is the innovative drive of R&D against the machine-like drive of production. Combination of one kind or another is necessary in most organizations, because effective organizations usually balance many forces. Configuration merely means a tilt toward one force; combination is more balanced.

Conversion

Few organizations stay one form or combination; they undergo *conversion*. These may result from external changes (innovations, or suddenly unstable markets). Conversions may be temporary, as in the machine organization that becomes an entrepreneurial organization during a crisis.

Cycles of conversion

The forces that may destroy the organization may instead drive it to another, perhaps more viable configuration. For example, the inherently vulnerable entrepreneurial form may grow and become a machine organization. The most common life cycle begins with the entrepreneurial form. Growth leads to the machine form. Even greater growth leads to the diversified form.

Another life cycle occurs for firms dependent on expertise. They move from the entrepreneurial form to either the professional form (if they can standardize their services) or the innovative form (if their services are more creative). Another common conversion is when an innovative form settles into a professional form. Ideology is a more important force in young organizations. Politics is a more important force as an organization ages.

Cleavage in conversion

Some conversions are easy because they are so overdue. Others are more difficult and conflicting. The forces that create the conversion also create the possibility of cleavage.

Contradiction

"Organizations that have to reconcile contradictory forces, especially in dealing with change, often turn to the cooperative force of ideology or the competitive force of politics. Indeed, I believe that these two forces themselves represent a contradiction that must be managed if an organization is not to run out of controls...While it is true that each can dominate an organization, and so draw it toward a missionary or political form, more commonly they act differently, as *catalysts*."

Cooperation through ideology

"Ideology represents the force for cooperation in an organization, for collegiality and consensus." It encourages members to look inward, to take their lead from the imperatives of the organization's own vision. One important implication is that the infusion of ideology renders any particular configuration more effective.

Another implication is that ideology helps an organization manage contradiction and so to deal with change. The innovative machine or the tightly controlled innovative organization handles these contradictions by having strong cultures. "Such organizations can more easily reconcile their opposing forces because what matters to their people is the organization itself, not any of its particular parts." This is how *Toyota* gets efficiency and high quality at the same time.

Limits to cooperation

Ideologies are difficult to build and sustain, and established ideologies can get in the way of organizational effectiveness. It may discourage change by forcing everyone to work within the same set of beliefs. This has implications for strategy. Change *within* strategic perspective, to a new position, is facilitated by a strong ideology. But change *of* perspective—fundamental change—is discouraged by it.

Competition through politics

"Politics represents the force for competition in an organization, for conflict and confrontation." It can infuse any of the configurations or combinations, aggravating contamination and cleavage. In a configuration, the representatives of the dominant force "lord it" over others. In a combination

representatives of the various forces relish opportunities to do battle with each other. Politics may be a more natural force than ideology. Left to themselves, organizations seem to pull apart rather easily. Keeping them together requires considerable and constant effort.

Benefits of competition

“If pulling together discourages people from addressing fundamental change, then pulling apart may become the only way to ensure that happens.” Change requires challenging the status quo. Politics may facilitate this; if there are no entrepreneurial or innovative forces stimulating strategic change, it may be the *only* available force for change. “Both politics and ideology can promote organizational effectiveness as well as undermine it.”

Combining cooperation and competition

Ideology and politics themselves have to be reconciled. Pulling together ideologically infuses life, splitting apart politically challenges the status quo. “Only by encouraging both can an organization sustain its viability.... Ideology helps secondary forces to contain a dominant one; politics encourages them to challenge it.” The balance between ideology and politics should be a dynamic equilibrium. Most of the time, ideology should be pulling things together, contained by healthy internal competition. When fundamental change becomes necessary, politics should help pull the organization apart.

Competence

What makes an organization effective? The “Peterian” view is that organizations should be hands on, value driven. The “Porterian” view says that organizations should use competitive analysis. “To Porter, effectiveness resides in strategy, while to Peters it is the operations that count... We must find out what really makes an organization truly effective. We need to understand what takes it to a viable strategy in the first place, what makes it excellent there, and how some organizations are able to sustain viability and excellence in the face of change.” Here are five views of organizational effectiveness:

- Convergence*: there is one best way to design an organization.
- Congruence*: the contingency or “it all depends” approach.
- Configuration*: “getting it all together”; fit the organizational pieces together to create a coherent, harmonious picture.
- Contradiction*: manage the dynamic tension between contradictory forces.
- Creation*: “The truly great organization transcends all of the above, while building on it to achieve something more.... These organizations invent novel approaches that solve festering problems and so provide all of us with new ways to deal with our world of organizations.”

“The most interesting organizations live at the edges, far from the logic of conventional organizations, where as . . . in biology (for example, between the sea and the land, or at the forest's edge), the richest, most varied, and most interesting forms of life can be found.”

Discussion Questions

1. *How much does the “getting it all together” approach really add to the “it all depends” approach?*
It adds quite a bit. The contingency (“it all depends”) approach says that you should design your organization to fit environmental contingencies, e.g., if the environment is turbulent, you should have an organic structure. The configuration (“getting it all together”) approach says that we know that many design elements actually should go together, i.e., they should not be picked individually. A decision to build a machine organization is really a decision to put many elements` together—narrow (rather than broad) job specialization, action planning (not performance control), centralized (not decentralized)

decision-making, many small units (instead of a few larger units), functional (as opposed to market-based) grouping.

2. What's your assessment of the author's definition of ideology?

Some students will question Mintzberg's definition of ideology. He calls it “strong culture”, encompassing the traditions and beliefs which (1) distinguish an organization from others and (2) infuse life into its “skeleton”. Critics will wonder why he feels it necessary to introduce a concept in addition to the already-familiar “culture”. If a firm has a strong culture, then it has an ideology. But what if it has a weak culture? Does that mean it has a weak ideology, or *no* ideology?

3. What is your opinion of the idea that the term bureaucratic applies to any structure that relies, for coordination, on any form of standardization?

Students will find this a bit odd. The terms bureaucracy and bureaucratic have negative connotations, so few people will question the use of the semis with regard to the machine organization. This will probably also be true for diversified organizations, which tend to be large and formalized. But this assertion implies that professional organizations and missionary organizations, which rely on standardization of skills and norms, respectively, are bureaucratic, too. Many students will question this. But it is true that professional standards can be very strict, and organizational norms can be very strict. So those two types of organizations can be as restrictive as organizations burdened by many rules.

4. What is the distinction between training and indoctrination?

Training is aimed at imparting skills or knowledge. It is a key design parameter in professional organizations. It is a substitute for formalization in obtaining standardized behavior. Indoctrination, by contrast, is aimed at standardizing norms. It is a tool for socializing organization members, and is usually more psychologically intense than training. It too, is a substitute for formalization, in this case the standards being internalized as deeply rooted beliefs.

5. In what sense are function and market the only two real bases for unit grouping?

Functional grouping, based on what is done in the work process, is a familiar basis of unit grouping. It is always available to the organizational designer. So the root of this question is whether or not market grouping is indeed the only other basis. Mintzberg mentions three possible bases—product, client, and geographical area. His argument is that each of these is simply a surrogate for market. Products are targeted for particular markets. Clients, in the aggregate, *are* the market. And geographical areas are markets. So, market is the only other basis for grouping.

6. How does action planning differ from performance control?

Action planning specifies the actions of workers *before* they do them. It is an important design parameter in machine organizations. Performance control specifies desired outcomes, and leaves the necessary actions up to the workers. It is an important design parameter in diversified organizations.

7. How do the concepts of liaison positions and integrating managers differ?

Liaison positions are considerably weaker than integrating managers. Liaison positions are jobs created to coordinate the work of two units. Those who serve in them must use their powers of persuasion and negotiation to bring the two sides together. Integrating managers have formal authority over the units they link. They are liaison positions, only with authority.

8. What is the distinction between vertical and horizontal decentralization?

Decentralization means the diffusion of decision-making power. Vertical decentralization means that formal power is diffused by top managers to lower-level managers. Horizontal decentralization is the

diffusion of either formal or informal decision-making power to non-managers, such as operators, analysts, and support staffers.

9. *What is the distinction between selective and parallel decentralization? How useful is this distinction?*

Selective refers to the dispersal of power over different decisions to different places. An example would be giving the organization's staff attorneys power to make legal decisions, but giving its real estate experts the power to make real estate sale or purchase decisions. Parallel decentralization means the dispersal of power over various decisions to the same place. The best example is the position of division manager in a diversified organization. Each division manager is given the same set of decision-making powers—e.g., how much can be invested, how much can be granted in pay increases, the amount of latitude in business planning, etc.

10. *What are the implications of the age and size hypotheses?*

The implications are straightforward—as an organization gets older and larger, it gradually becomes a machine organization. It is characterized by the dominance of standardized work processes (formalized rules) and the prominence of the technostructure (which writes the rules). The rules allow the organization to have larger units. Lastly, the organization is more specialized. All of this adds up to machine organization.

11. *What are the implications of the five environment hypotheses, taken as a whole?*

The more difficult is the environment, the more adaptable the organization. Adaptability means organic (the opposite of bureaucratic) structure, i.e., coordination is not based on standardization. It also means the dispersal of decision-making power to places closer to where the decision should be made, i.e., decentralization. It means being differentiated, i.e., divided up in ways as complex as the environment, including specialized divisions for specialized markets. The hypothesis which doesn't fit these implications is the one which says that bad tarries lead to temporary centralization of an organization's structure. This means that when things go wrong, top management takes the reins a bit more. The quickest responses can come from organizations run by one person, or a small number of people, and this is frequently what is needed in a crisis.

12. *How can fashion affect the choice of structure? Is this good or bad?*

Organizational structure, like other aspects of management, has its fads and fashions. A few years ago, a matrix structure was very fashionable. Many organizations adopted a matrix form, even though it was not appropriate for them. Today, many organization designers denigrate formalization, even though it is widely recognized that rules can be very effective, in the proper circumstances. Most students will agree that this is a bad thing. Organization design should be based on the situational factors of age, size, technical system, and environment, and on how the parameters fit together into a proper configuration.

13. *What is your opinion of the “seven pulls on the organization”?*

Students will be split on the usefulness of the Pulls concept. Some will say that it adds little to the seven parts and six coordinating mechanisms discussed earlier in the reading. Others will argue that it is these pulls that lead the organization to finally end up in one configuration or the other. They are the driving forces behind the formation of configurations.

14. *How can the operating core of an entrepreneurial organization be organic?*

The term organic has positive connotations, and is usually reserved for describing organizations whose workers have lots of freedom and decision-making power. These attributes are not typical of entrepreneurial organizations, whose strategic apexes tend to reserve most power to themselves. But Mintzberg uses the term as the opposite of bureaucratized. In that sense, the entrepreneurial organization is organic, since it has no standardization. The entrepreneurial organization does not rely on any form of standardization for coordination; its prime coordinating mechanism is direct supervision.

15. *In what sense is the diversified organization not a complete structure?*

The term “diversified organization” applies to only part of the structure of such firms. It describes only the structure of the overall corporation. It does not describe the structures of the various divisions. In theory, each division could have a unique structure. (In practice, they tend to be machine organizations.)

16. *What is your reaction to the distinction between “lumpers” and “splitters”?*

This question is intended to stimulate discussion. Many students will find this distinction flippant. Here we are, trying to discuss the serious topic of business strategy, and Mintzberg is using terms like lumpers and splitters. But he is using these colloquial terms to make a point. Management literature has been filled with material of the splitter variety for a long time. Splitters are analysts, and as Mintzberg mentioned in his earlier reading on “crafting strategy,” it is not at all clear that analysis/splitting is the way managers operate. Managers are synthesizers, i.e., they like to put things together, i.e. lump them. By using these slightly flippant terms, the author is highlighting this distinction.

17. *Do all organizations face the seven fundamental forces?*

The author says that organizations experience all seven of the fundamental forces. Form groups and have each group analyze the seven forces for an organization its members know well.

18. *What's your reaction to the author's notion that none of the configurations “exist at all”?*

Some students may respond by saying that if this is correct, then why bother studying them? But Mintzberg's point is that any construct or model, whether it be about strategy or configuration or anything else, is an abstraction. A model is a mental conception of reality, intended to help the person appreciate “reality.” It is a tool for understanding. And that is all the author's configurations are. As he says, the model constitutes powerful diagnostic framework by which to understand what goes on in organizations and to prescribe effective change in theme.

19. *How common are the pure configurations? Can you think of some examples?*

The author cites research showing that slightly more than half of all organizations are pure configurations. That is just one study. Students may have different opinions about the proportions. There are some good examples. *McDonald's* is a good machine organization, at least in its operating core. Some might argue that it is an administrative adhocracy—a machine core with an innovative strategic apex. Hewlett-Packard is a good example of an operating adhocracy, as would be any local advertising agency. The college or university at which the students are studying would be a good example of a professional organization. So would any law firm or accounting firm with which students are familiar.

20. *What is your reaction to the five organizational neuroses of Miller and Kets de Vries?*

This question should stimulate discussion. Miller and Kets de Vries's work may be very solid, but many students will find Mintzberg's attempt to attach each neurosis to a corresponding pure configuration to be a stretch. Nevertheless, there is at least a kernel of plausibility to this. The entrepreneurial organization is thoroughly dominated by its leader, whose vision drives the organization. Machine organizations are typically pervaded by a control mentality. University faculty will not be strangers to the idea that threats to professional autonomy and control are viewed with something resembling paranoia. The two biggest stretches are associated with the depressive and schizoid neuroses. The standardization of outputs does drive the diversified organization toward machine bureaucracy, but it is not at all clear that depressive is the correct metaphor. Lastly, one could argue that constant oscillation between divergent and convergent thinking is healthy, not schizoid. The fundamental point underlying Mintzberg's discussion is valid regardless of any defects in these metaphors—a configuration dominated, perhaps overwhelmed, by one force, will contaminate itself, perhaps pathologically.

21. What is your reaction to the author's discussion of combinations?

Most students will react favorably to this discussion. It is difficult to find abundant examples of the pure configurations. It is easy to find elements of each force in any organization. Most students have an easier time characterizing an organization as a hybrid or other combination. In this section, Mintzberg gives them tools that help them do this.

22. Describe the similarities and differences between the two major patterns of conversion.

One major pattern of conversion is from the entrepreneurial form to the machine form, and perhaps on to the diversified form. The second starts with the entrepreneurial form and moves to either the professional or innovative form. The main similarity between the two is beginning with the entrepreneurial form. Almost everything else is different. The first cycle is driven by growth, which encourages formalization and the adoption of the machine form. The second cycle is driven by expertise. The expertise can be standardized; the transition is to the professional form. If it cannot be standardized, the organization becomes an adhocracy.

23. How does ideology augment or diminish an organization?

Ideology helps in several ways. It is the driving force for cooperation in the firm. It encourages members to look to the organization's vision. Most important is ideology's ability to help members reconcile the many contradictions they will encounter in their organizational lives. As the author says, "Such organizations can more easily reconcile their opposing forces because what matters to their people is the organization itself, not any of its particular parts." But there are problems. Ideologies are difficult to build and to maintain. And established ideologies can get in the way of effectiveness; they inhibit change by forcing everyone to work within the same set of beliefs. Strategic change within a perspective is aided by a strong ideology and change of perspective—fundamental change is discouraged by it.

24. How does politics augment or diminish an organization?

Politics usually hurts, according to the author, because it is the force for competition, for conflict and confrontation. If it dominates, it may create a politicized organization. Or the dominant part of a configuration (e.g., the technostructure in a machine organization) may lord it over the weaker parts. In a hybrid or combination, politics may incite factional disputes. But politics can also help. If reactionary forces dominate a firm, it may be politics that gets it to change. It is a force that can be used to challenge the status quo.

25. What is your reaction to the author's discussion of how ideology and politics should work together?

Some students may find it paradoxical that organizations that balance ideology and politics are the most effective. But, then, organizations are filled with paradoxes. Most people agree that it's a good thing for scientists to be familiar with practical things, and for marketing people to understand the principles that underlie the products they are selling. It is the tension between the opposing forces that leads to the greatest learning. The principle is the same for organizations. If an organization is too set in its ways, it will atrophy. If it is too divided, it will never have the chance to establish a good pattern or strategy. What is needed is a creative tension between the stability of ideology and the challenge of politics.

26. *What is your reaction to the author's five views of organizational effectiveness?*

This question is intended to stimulate discussion. The first three views capture the evolution of thinking in (more-or-less) sequential order. It started with the "one best way" approach. The well-known contingency, "orbit all depends," approach followed. Mintzberg was one of the chief architects of the configuration approach, which argued that organizational pieces fit together in coherent, internally-consistent, ways.

The fourth and fifth views are new, at least to some extent. The previous answer gave some insight into why contradiction can be a good thing. The "creation hypothesis" is problematic in that it provides no guidelines. Presumably, a management playing organizational LEGO would be involved in building new, cutting-edge organizational forms.

27. *Which of the following most resembles organization design: solving puzzles or playing with LEGO?*

This question should stimulate discussion. Some students are always looking for the right answer. For them, organizational design will always be puzzle solving; get the pieces and make sure to put them in the right places. Other students will have a more flexible view; there may be more than one way to organize in a particular situation. For these students, the pieces are not puzzle parts with only one correct location—they are blocks that can be combined in many different and creative ways.

MARCH, "DISPOSABLE ORGANIZATION"

Summary of Reading

This reading addresses what has been a pervasive theme in preceding chapters: the increasing need to design organizations that are capable of learning from and adapting to the changes they face. The reading seeks to give precision to thinking about *adaptiveness* by identifying two symbiotic aspects of it: *exploitation* and *exploration*.

Exploitation denotes the short-term improvement of existing knowledge, capabilities, and technologies. It demands processes that emphasize focused attention, repetition, control, and reduction in organizational slack. Exploitation is also driven by the pursuit of legitimacy and shared understandings. Examples include reengineering, down-sizing, and total quality management (TQM).

Exploration denotes a long-term shift to new knowledge, capabilities, and technologies that improve on existing ones. Its characteristic feature is that it is risky, and even when it is successful its rewards are often slow in coming. It is stimulated by failure and made possible by organizational slack.

Adaptiveness requires optimizing across exploitation and exploration, such that an organization generates real discoveries but can also take advantage of these. However, the dynamics of learning produce a "success trap" and a "failure trap." The former is due to exploitative processes that build a cycle of success and ever more refined and focused capabilities. New good ideas are not tried, or if they

do tend to be rated poorly against existing ones and not given the chance to close the gap. The failure trap, on the other hand, is an excess of exploration: an organization tries a new direction, fails, tries another, fails again, and so on. Optimizing across exploitation and exploration is also max difficult because they tend to undermine each other: “exploiters” are impatient with the imperfections of new ideas or technologies; “explorers” are bored by the routine of established ones.

The remainder of the reading is given over to a consideration of the dangers of exploration, and more particularly the act of imagination that impels it. This is a salutary reminder of the potential destructive lure of the new, whereby a lucid and compelling vision can protect from the disconfirmation of experience and knowledge, allowing a crazy idea to gather enough strength to undermine convention.

Discussion Questions

1. *What do you think is the core idea informing the two notions of a failure trap and a success trap?*

The purpose of this question is to get students thinking about success and failure in a subtle way. That is, failure can be attributed to both single-mindedness (the “success trap”) and the lack of it (the “failure trap”). Thus, that what make a firm great can also make it fail because the pursuit of some central capability generates a host resource commitments, processes, and assumptions that focus the firm on that capability. With success, the complex inter-relationships that develop between these elements become increasingly self-reinforcing, and inconsistencies, diversity, and novelty tend to be driven out. Core rigidities may well be the result: former core capabilities that have become a source of organizational inertia, i.e., prevent the firm from anticipating or responding to change in the external environment. This is an explanation of the success trap; in seeking to avoid it a firm may fall into the “failure trap”; dissipating its resources through never single-mindedly pursuing a given direction such as to build up the highly refined constellation of resources, processes, and assumptions that sustain excellence in a particular endeavor. Good management, therefore, needs to be guided by the ancient criterion of the golden mean.

HAMEL, “STRATEGY, INNOVATION, AND THE QUEST FOR VALUE”

Summary of Reading

This reading argues that wealth creation and long-term sustainability depend on strategy innovation (or, a “non-linear” strategy); the capacity to reconceive the existing industry model in ways that create new value for customers, outsmart competitors, and product new wealth for all stakeholders. The goal for every firm should be to capture a disproportionate share of industry wealth creation, rather than growth, or merely earning more than the costs of capital. *Intel* is a good example.

There has been enormous innovation in the content of strategy - a constantly growing list of new strategic themes - but no corresponding innovation in how to conduct strategy-making. For example, in most companies, the annual strategic planning process has hardly changed in years. In sum, the reading argues, we don’t have a theory of strategy creation. Several suggestions for building one are offered. First, recognize the emergent nature of strategy, which implies focusing on the significance of a self-reinforcing set of preconditions from which strategy emerges. Second, understand the tension in human and natural systems between entropy (disordered energy or disintegration) and order. This suggests that strategizing creates order but without careful crafting, i.e., top down strategy-making works at the level of preconditions and broad parameters, rather than at the level of detailed design.

Even though any firm's strategy will be complex, it can have simple roots or preconditions: generating inputs from diverse and new voices, new conversations to juxtapose previously isolated people and knowledge, new passions such that people are emotionally invested in their firm, new perspectives that allow companies to reconceive themselves and their external relationships, and a series of small new experiments in the market to maximize learning.

Discussion Questions

1. *What do you understand by the term “non-linear strategy” and how do you think it relates to feedback and control in an organization?*

All effective businesses use negative or damping feedback systems to control and regulate their day-to-day activities. Scheduling, budgetary, and planning systems utilize negative feedback to keep an organization close to a predictable, stable equilibrium path in which it is adapted to its environment. Control and change based on such feedback constitutes a linear strategy.

Positive feedback, on the other hand, produces explosively unstable equilibrium, where changes are amplified, and eventually build to put intolerable pressure on the organizational system. However, when a non-linear feedback system is driven away from stable, and toward unstable, equilibrium, it has been found to pass through a phase of bounded instability, where feedback flips autonomously between amplifying and damping to produce “chaotic” behaviour. These effects are a function of human interactions; such interactions take the form of non-linear feedback loops because people under- and over-react.

At the organizational level, this phenomenon manifests itself as forces pulling toward a stable equilibrium (or integration), and unstable equilibrium (or differentiation/ fragmentation). It is a well-established finding that organizations need both influences; that is, success lies at the border between these states where managers are continually altering systems and structures in order to avoid excessive influence by either force.

2. *What metaphor for manager would you propose based on the material in this reading?*

This question is intended to stimulate discussion of the nature of management, drawing on all that students study elsewhere in the course. For example, if the Mintzberg reading “Covert Leadership” in Chapter 15 has been assigned, students will already be primed to think of management in terms of metaphor. Diversity in answers should be expected; however, the author has a clear emphasis on the tensions inherent in management; “...strategy is poised on the border between perfect order and total chaos, between absolute efficiency and blind experimentation, between autocracy and total adhocracy.” What this reading adds to the metaphor of “manager as conductor” is its emphasis on the limited direct contact any manager can hope to have with the entire organization system because of the size, complexity, and shifting nature of that system. Recognizing this compels a focus on the conditions and tensions between them that gives shape and direction to that system. This suggests a metaphor of the manager as navigator. By deftly applying pressure or encouragement at key points in the organizational system, he or she can shape the direction of the organization.

SEMLER, “HOW WE WENT DIGITAL WITHOUT A STRATEGY”

Summary of Reading

In this reading, the owner of a mid-sized Brazilian firm argues that top management should not define the identity of a firm, but let employees shape it through their individual efforts. Drawing on his 20-

year association with the firm, he suggests that its capacity to transform itself continuously and organically without top-down direction is something that will be increasingly emulated by other firms.

But how has a large organization such as his changed without being told or even asked to change? To have a willingness to give up control of business development to people “lower down” in the organization, one must accept that there will be steps both forward and backward, and over the long haul their successes will far outnumber their failures. The author has inferred six lessons on how this has been achieved at his firm: forgetting about the top line (long-term survival is what matters, and some businesses just aren’t meant to be huge); never stop being a start-up (existing businesses and employees are rigorously evaluated every six months to justify their continued existence in the firm); not being a nanny (allowing people to choose when to work, how they are to be compensated, and having very little in the way of regularized HR policy); letting talent find its place (allowing people time to find a job and a business unit that fits their personality and goals); making decisions quickly and openly (new business ideas go before a board meeting that is completely open at *Semco*, and have to meet the two criteria of being a premium product requiring complex engineering skills and with likely high entry barriers; failing these the project may still be backed by *Semco* as a minority investor); partner promiscuously (partners are as much as a part of *Semco* as the employees: every new business launched by *Semco* is an alliance of some sort).

Discussion Questions

1. *Do you think the sort of firm described by the author could succeed in North America?*

Students answers to this question should be interesting. Some might cite significant national-cultural factors at work in making *Semco* a success, and that such cultural factors would be absent in North America. Alternatively, some students might suggest that this is a unique firm that is very much a reflection of its founder.

Both points can be addressed by observing that while some of the detail might differ, the tenor of the processes described here is well established in certain well-known North American firms. For example: *Southwest Airlines* and *Nucor Steel Co.* This forces students to probe beyond some of the more colourful detail to get at what is essential here. What is being described is a medium-sized entrepreneurial firm where people have significant decision-making responsibility and accountability. As a business phenomenon, that is not so very unusual, though perhaps not as common as it might be.

Finally, it would also be worth asking whether the way *Semco* works could apply to a large firm. To this it could be answered that *Semco* seems to have handled growth well. For example, a large firm like *Intel* sums up its organizational processes with the slogan “maximum freedom, maximum measurement” – which seems to capture the essence of *Semco* too!

MINTZBERG, “MANAGING QUIETLY”

Summary of Reading

This final article tackles the rhetoric of management and the cult of leadership that goes with it. The notion of a variety of C.E.O.s adding billions to their companies in the space of only a few years is debunked, as such popular concepts as globalization (not novel at all), shareholder value (a cover for mercenary management, including managerial enrichment through stock options), empowerment (the really healthy organizations empower their leaders, who listen; other organization claiming to do so have often spent years disempowering their people); change management (often a synonym for mindless activity).

The author contends that much commentary on managerial thinking is obsessed with what is current, and fails to promote an appreciation of what has succeeded and failed in the past. Managers need to see beyond all of this hype to manage quietly. The author gives a compelling example of quiet success in pointing to water cleanliness as the greatest advance in health care. Managing quietly involves inspiring, caring, infusing (which the author equates with slow, steady, and profound change), and initiating (strategy from people with their feet planted in the “ground” of the organization). The reading concludes with the observation that the best management of all may be silent, because that way many people across all levels in an organization who enact a strategy can then be properly heard to say “we did it ourselves.”

Discussion Questions

1. *What major themes in this book are reflected in this reading?*

This question is intended to prompt some mild reinforcement of ideas presented earlier in the course. Thus, themes from the book evident in this reading include the importance to good strategy-making of strategic learning that is bottom-up (e.g. Chapter 5); the crucial aspect of a manager’s work is shaping the context of work in the organization (e.g., Chapters 2 and 12); and the importance of a sense of history to seeing through the hype about strategy-making (e.g., Chapters 5, 7 and 12).

2. *Imagine you are a member of a board of directors searching for a new C.E.O. for your company. What does this reading suggest about the selection process?*

As a board member, you will probably be inclined to demand a vision of the company from candidates for the position of C.E.O. But as a board member, it’s hard for you to know what’s going on internally in the company. In the absence of such nuanced knowledge, you are drawn to seek certainty from the candidates, i.e., views on deliberate strategy. Emergent strategy, which develops over time, may be much better, but it makes boards uncomfortable.

It’s very hard for prospective C.E.O., particularly an incumbent, to say to a board, “Well, we’re evolving our strategy. It’s emerging.” The board is pre-disposed to a particular view of strategy-making that over-emphasizes the impact of the C.E.O. and understates the role of the rest of the organization, a view that is reinforced by a financial press that is obsessed with CEO leadership of strategy-making. The author suggests that what a board should be looking for in a C.E.O. is someone who builds on the people, who is responsive to them, and molds strategy on the basis of their ideas. This will often mean someone from inside, not “parachuted in” from outside the company.

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